

**ANNUAL BUDGET OF**

# **HESSEQUA**

# **MUNICIPALITY**

**2012/13 TO 2014/15 MEDIUM TERM REVENUE AND  
EXPENDITURE FORECASTS**

**Copies of this document can be viewed:**

- In the foyers of all municipal buildings
- All public libraries within the municipality
- At [www.hessequa.gov.za](http://www.hessequa.gov.za)

## Table of Contents

|         |  |        |
|---------|--|--------|
| 1.1     | Mayor's Report                                     | pg. 3  |
| 1.2     | Executive Summary                                  | pg. 3  |
| 1.3     | Operating Revenue Framework                        | pg. 5  |
| 1.3.1   | Property Rates                                     | pg. 9  |
| 1.3.2   | Sale of Water and Impact of Tariff Increases       | pg. 10 |
| 1.3.3   | Sale of Electricity and Impact of Tariff Increases | pg. 11 |
| 1.3.4   | Sanitation and Impact of Tariff Increases          | pg. 14 |
| 1.3.5   | Waste Removal and Impact of Tariff Increases       | pg. 14 |
| 1.4     | Capital and Operating                              | pg. 17 |
| 1.4.1.1 | Priority given to repairs and maintenance          | pg. 19 |
| 1.4.1.2 | Free basic services: Basic Social Service Package  | pg. 20 |
| 1.4.2   | Capital Expenditure                                | pg. 21 |
| 1.4.3   | Financing of Capital                               | pg. 22 |
| 1.5     | Annual Budget Tables – Parent Municipality         | pg. 22 |

## **Part 1 – Annual Budget**

### **1.1 Mayor's Report**

The Mayor will deliver her Budget address during the final budget meeting.

### **1.2 Executive Summary**

The application of sound financial management principles for the compilation of Hessequa Municipality's financial plan is essential and critical to ensure that it remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. A critical review was also undertaken of expenditures on non-core and „nice to have“ items. This has resulted in savings to the municipality. Key areas where savings were realized were on telephone usage, printing, overseas and national travel and social projects. However the compilation of the new valuation roll will add R1.6m to the councils expenditure.

The municipality reduced its capital budget out of own funds over the MTREF period and for the 2012/2013 financial year from R56.7m in 2011/2012 to R34,5m in 2012/2013. The reason for the reduction is because of a lack of cash and the effect that external loans has on the councils tariffs. The cash backed reserves were previously obtained by the sale of municipal land. Due to the worldwide economic downturn, no sale of municipal land is realized, however for the outer years we do anticipate that the economy will stabilize and therefore budgeted income from land sales in the outer years should be obtained.

The municipality has an approved credit control policy and applies it strictly. The implementation of the new property rates act and the dire financial straits in which investors find themselves, has contributed to the increase in debtors. The most effective way of applying the credit control policy, is to disconnect services. Council is in an advance stage with the handing over of arrear accounts, and the effect of the payment of outstanding accounts is starting to show positive results in the debtors figures. Over the MTREF period collection rates should increase, bearing in mind the assumption that collection rates over the MTREF period will be 100 percent+. We are constantly busy with customer care initiatives so that a people led government is ensured.

National Treasury's MFMA Circular No's 58 and 59 were used where necessary to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy.
- Ageing and increasing in the maintenance of water, roads, sewerage and electricity infrastructure.
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality.
- The increased cost of bulk water and electricity (due to tariff increases from Overberg Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable – our customers are at the point where the tariffs of the municipality are no longer affordable.
- Salary increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies for the municipality to comply with legislation.
- Affordability of urgent capital projects.
- Affordable borrowing cost.

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- The 2012/13 MTREF budget prioritizes and targets the municipality to ensure sustainable service levels. The draft capital budget over the MTREF period provides for the minimum resources that are needed for the current infrastructure and does not address virtually all backlogs of the past. This will result in unaffordable capital budgets.
- The council's goal is to keep tariff increases as low as possible. Unfortunately we could not keep to the 5% increase as proposed in budget circular 58, and the tariffs for rates, refuse, sewerage and water are considerably higher. The electricity tariff increase is slightly higher than the NERSA proposal of approximately 11.03%. Factors such as salaries which make out a large component of the budget, increases 7.74%, (increase 5%, new posts and notches) and capital cost have increased by 23,5% from 2011/2012.
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

| <b><u>CONSOLIDATED OVERVIEW OF THE 2012/2013 MTREF</u></b> |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | Adj. Budget        | Budget             | Budget             | Budget             |
|  | 2011/2012          | 2012/2013          | 2013/2014          | 2014/2015          |
| <b>Total Operating Revenue</b>                             | <b>251 594 194</b> | <b>270 745 233</b> | <b>300 705 440</b> | <b>339 022 080</b> |
| <b>Total Operating Expenditure</b>                         | <b>263 124 472</b> | <b>278 613 580</b> | <b>297 142 943</b> | <b>319 134 396</b> |
| <b>Surplus/(Deficit) for the year</b>                      | <b>-11 530 278</b> | <b>-7 868 347</b>  | <b>3 562 497</b>   | <b>19 887 684</b>  |
| <b>Total Capital Expenditure</b>                           | <b>71 767 000</b>  | <b>48 915 000</b>  | <b>60 073 750</b>  | <b>64 643 400</b>  |
| <i>Excluding Capital Grants and Internal Transfers</i>     |                    |                    |                    |                    |

## **Revenue**

Total operating revenue has grown by 7,62% or R19.2m for the 2012/2013 financial year compared to the 2011/2012 Adjusted Budget.

For the two outer years, operational revenue will increase by 11.1% and 12.7% respectively, equating to a total revenue growth of R87.4m over the MTREF when compared to the 2011/2012 financial year.

## **Expenditure**

Total operating expenditure for the 2012/2013 financial year has been appropriated at R278,6m and translates into a budgeted deficit of R7,9 million. When compared to the 2011/12 Adjustments Budget, operational expenditure has grown by 5,9 per cent in the 2012/13 budget and by 6,7 and 7,4 per cent for each of the respective outer years of the MTREF. The operating deficit changes to surpluses for the outer years of R3.6m and R19,9m. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

## **Budgeted Deficit for 2012/2013**

The main drivers of the budgeted deficit of R7,8 million is depreciation and provision for retirement benefits. The incorporation of all assets into the asset register has greatly increases the amount of depreciation provided for in the budget, and is impossible to be

recovered by tariffs. Although the depreciation charges and retirement benefits is not a cash-backed transaction, it is reflected in the budgeted deficit, however in the outer years this anomaly will no longer exist, since land sales will result in the deficit changing to a surplus.

### **Capital Budget**

The capital budget of R48,9m for 2012/2013 is 31,8% less when compared to the 2011/2012 Adjusted Budget. The reduction is due to affordability constraints in the light of current economic circumstances.

The capital programme increases for the two outer years by 22,8% and 7,6% respectively. A substantial portion of the capital budget will be funded from borrowing over MTREF with anticipated borrowing of R16,3m for 2012/13 and R16,2 and R17,3 million for the outer years. Borrowing will contribute 33,3, 26,9 and 26,7 per cent of capital expenditure in each of the MTREF years. The balance will be funded from internally generated funds, government grants and public contributions.

The repayment of capital and interest (debt services costs) has substantially increased over the past years as a result of the aggressive capital infrastructure programme implemented.

### **1.3 Operating Revenue Framework**

For Hessequa to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro economic policy;
- Efficient revenue management, which aims to ensure a 100+ per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policy.

The following table is a summary of the 2012/13 MTREF (classified by main revenue source):

**Table 1 Summary of revenue classified by main revenue source**

| Description   | Ref | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    |                   | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|   |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| R thousand  | 1   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Revenue By Source   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Property rates  | 2   | 31,812          | 40,125          | 42,631          | 47,564               | 47,564          | 47,564             | 47,564            | 51,862  | 58,111                 | 63,941                 |
| Property rates - penalties & collection charges               |     |                 |                 |                 | -                    | -               | -                  |                   |   |                        |                        |
| Service charges - electricity revenue                         | 2   | 44,539          | 60,604          | 73,194          | 85,139               | 85,139          | 85,139             | 85,139            | 93,771  | 105,376                | 117,043                |
| Service charges - water revenue                               | 2   | 13,673          | 13,834          | 16,707          | 18,275               | 18,275          | 18,275             | 18,275            | 22,598  | 25,337                 | 27,871                 |
| Service charges - sanitation revenue                          | 2   | 13,349          | 12,263          | 13,688          | 14,662               | 14,662          | 14,662             | 14,662            | 17,094  | 19,144                 | 21,059                 |
| Service charges - refuse revenue                              | 2   | 7,509           | 8,709           | 9,781           | 10,932               | 10,932          | 10,932             | 10,932            | 12,021  | 13,463                 | 14,810                 |
| Service charges - other                                       |     | 5,179           | 5,027           | 4,851           | 5,023                | 5,023           | 5,023              | 5,023             | 5,525   | 6,077                  | 6,685                  |
| Rental of facilities and equipment                            |     | 2,993           | 3,168           | 3,585           | 3,539                | 3,539           | 3,539              | 3,539             | 4,045   | 4,302                  | 4,678                  |
| Interest earned - external investments                        |     | 10,356          | 5,897           | 3,967           | 4,500                | 3,800           | 3,800              | 3,800             | 4,020   | 4,140                  | 4,260                  |
| Interest earned - outstanding debtors                         |     | 1,419           | 1,040           | 1,063           | 1,081                | 1,081           | 1,081              | 1,081             | 1,353   | 1,518                  | 1,669                  |
| Dividends received  |     |                 |                 |                 |                      | -               | -                  | -                 |   |                        |                        |
| Fines   |     | 2,612           | 2,569           | 2,633           | 2,446                | 2,446           | 2,446              | 2,446             | 2,500   | 2,686                  | 2,894                  |
| Licences and permits  |     | 212             | 205             | 294             | 273                  | 273             | 273                | 273               | 277   | 298                    | 309                    |
| Agency services   |     | 1,147           | 1,199           | 1,221           | 1,215                | 1,215           | 1,215              | 1,215             | 1,248   | 1,266                  | 1,284                  |
| Transfers recognised - operational                            |     | 43,424          | 99,895          | 48,481          | 48,761               | 53,778          | 53,778             | 53,778            | 50,798  | 46,189                 | 49,623                 |
| Other revenue   | 2   | 6,537           | 3,906           | 14,296          | 2,851                | 2,717           | 2,717              | 2,717             | 2,633   | 2,797                  | 2,897                  |
| Gains on disposal of PPE                                      |     | 579             | 625             | 3,223           | 20,150               | 1,150           | 1,150              | 1,150             | 1,000   | 10,000                 | 20,000                 |
| Total Revenue (excluding capital transfers and contributions) |     | 185,340         | 259,067         | 239,615         | 266,411              | 251,594         | 251,594            | 251,594           | 270,745   | 300,705                | 339,022                |

**Table 2 Percentage growth in revenue by main revenue source**

| Description   | Ref | 2012/13 Medium Term Revenue & Expenditure Framework |       |                     |       |                        |       |                        |       |
|---|-----|---|-------|---------------------|-------|------------------------|-------|------------------------|-------|
|   |     | Adjusted Budget 2011/12                             | %     | Budget Year 2012/13 | %     | Budget Year +1 2013/14 | %     | Budget Year +2 2014/15 | %     |
| R thousand  |     |   |       |                     |       |                        |       |                        |       |
| Revenue By Source   |     |   |       |                     |       |                        |       |                        |       |
| Property rates  |     | 47,564  | 18.9  | 51,862              | 19.2  | 58,112                 | 19.3  | 63,941                 | 18.9  |
| Service charges - electricity revenue                         |     | 85,139  | 33.8  | 93,771              | 34.6  | 105,377                | 35.0  | 117,043                | 34.5  |
| Service charges - water revenue                               |     | 18,275  | 7.3   | 22,598              | 8.3   | 25,336                 | 8.4   | 27,870                 | 8.2   |
| Service charges - sanitation revenue                          |     | 14,662  | 5.8   | 17,094              | 6.3   | 19,144                 | 6.4   | 21,059                 | 6.2   |
| Service charges - refuse revenue                              |     | 10,932  | 4.3   | 12,021              | 4.4   | 13,463                 | 4.5   | 14,810                 | 4.4   |
| Service charges - other                                       |     | 5,023   | 2.0   | 5,525               | 2.0   | 6,077                  | 2.0   | 6,685                  | 2.0   |
| Rental of facilities and equipment                            |     | 3,539   | 1.4   | 4,045               | 1.5   | 4,302                  | 1.4   | 4,678                  | 1.4   |
| Interest earned - external investments                        |     | 3,800   | 1.5   | 4,020               | 1.5   | 4,140                  | 1.4   | 4,260                  | 1.3   |
| Interest earned - outstanding debtors                         |     | 1,081   | 0.4   | 1,353               | 0.5   | 1,518                  | 0.5   | 1,669                  | 0.5   |
| Dividends received  |     | –   | 0.0   |                     | 0.0   |                        | 0.0   |                        | 0.0   |
| Fines   |     | 2,446   | 1.0   | 2,500               | 0.9   | 2,686                  | 0.9   | 2,894                  | 0.9   |
| Licences and permits  |     | 273   | 0.1   | 277                 | 0.1   | 298                    | 0.1   | 309                    | 0.1   |
| Agency services   |     | 1,215   | 0.5   | 1,248               | 0.5   | 1,266                  | 0.4   | 1,284                  | 0.4   |
| Transfers recognised - operational                            |     | 53,778  | 21.4  | 50,798              | 18.8  | 46,189                 | 15.4  | 49,623                 | 14.6  |
| Other revenue   |     | 2,717   | 1.1   | 2,633               | 1.0   | 2,797                  | 0.9   | 2,897                  | 0.9   |
| Gains on disposal of PPE                                      |     | 1,150   | 0.5   | 1,000               | 0.4   | 10,000                 | 3.3   | 20,000                 | 5.9   |
| Total Revenue (excluding capital transfers and contributions) |     | 251,594   | 100.0 | 270,745             | 100.0 | 300,705                | 100.0 | 339,022                | 100.0 |

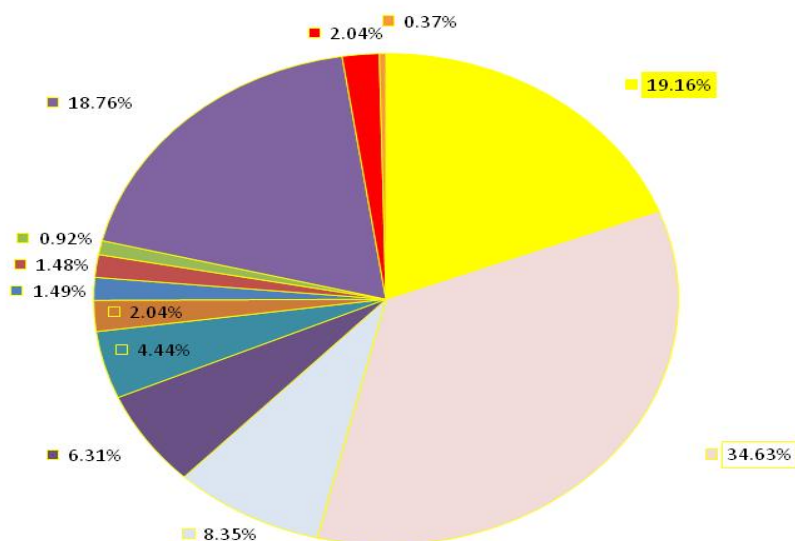
In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the council. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2012/13 financial year, revenue from rates and services charges totaled R202,8m or 74,9 per cent. This increases to R227,5m and R251,4m in the respective outer financial years of the MTREF.

Property rates amount to R51,9m or 19,2 per cent of total income increases to R58,1m by 2013/14.

The following graph show the % income per category for the 2012/13 draft budget:

**INCOME PER CATEGORY**



|                                      |                                       |                                 |
|--------------------------------------|---------------------------------------|---------------------------------|
| Property rates                       | Service charges - electricity revenue | Service charges - water revenue |
| Service charges - sanitation revenue | Service charges - refuse revenue      | Service charges - other         |
| Rental of facilities and equipment   | Interest earned                       | Fines                           |
| Transfers recognised - operational   | Other revenue                         | Gains on disposal of PPE        |

**Table 3 Operating Transfers and Grant Receipts**

Operating grants and transfers totals R50,8m in the 2012/13 financial year. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

| Description                                       | Ref  | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|   |      | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| R thousand  |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>RECEIPTS:</b>                                  | 1, 2 |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Operating Transfers and Grants</b>             |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| National Government:                              |      | 19,055          | 25,892          | 30,379          | 29,717               | 30,433          | 30,434             | 29,183  | 31,635                 | 34,346                 |
| Local Government Equitable Share                  |      | 14,776          | 16,489          | 21,258          | 23,227               | 23,227          | 23,227             | 26,522  | 28,810                 | 31,232                 |
| Finance Management                                |      | 500             | 750             | 1,000           | 1,250                | 1,588           | 1,588              | 1,250   | 1,250                  | 1,450                  |
| Municipal Systems Improvement                     |      | 400             | 400             | 750             | 790                  | 1,105           | 1,105              | 800   | 900                    | 950                    |
| Energy Efficiency and Demand Management           |      | 3,379           | 8,253           | 6,000           | 4,000                | 4,000           | 4,000              | -   | -                      | -                      |
| DME / MIG ADMIN STAFF MEMBER                      |      |                 |                 | 1,370           | 450                  | 514             | 514                | 611   | 675                    | 714                    |
| Provincial Government:                            |      | 17,335          | 71,818          | 17,875          | 18,746               | 20,327          | 20,327             | 21,355  | 14,284                 | 14,997                 |
| Housing   |      | 16,157          | 70,299          | 17,000          | 17,684               | 17,684          | 17,684             | 16,905  | 14,256                 | 14,969                 |
| Flood disaster, Prov: Road, Maint, CDW, Libraries |      | 1,178           | 1,519           | 875             | 1,062                | 2,643           | 2,643              | 4,450   | 28                     | 28                     |
| District Municipality:                            |      | 1,614           | 80              | 144             | -                    | -               | -                  | -   | -                      | -                      |
| Clean-up Projects                                 |      |                 |                 | 144             |                      |                 |                    |   |                        |                        |
| Africa Day  |      |                 | 40              |                 |                      |                 |                    |   |                        |                        |
| Tourism   |      |                 | 40              |                 |                      |                 |                    |   |                        |                        |
| Hessequa Thoroughfares                            |      | 1,000           |                 |                 |                      |                 |                    |   |                        |                        |
| Melkhoutfontein Electrification                   |      | 187             |                 |                 |                      |                 |                    |   |                        |                        |
| Alternative Energy                                |      | 300             |                 |                 |                      |                 |                    |   |                        |                        |
| Housing Consumer Education /LED                   |      | 128             |                 |                 |                      |                 |                    |   |                        |                        |
| Other grant providers:                            |      | 228             | 49              | 3,190           | 542                  | 3,018           | 3,018              | 260   | 270                    | 280                    |
| SETA/DISASTER RELIEF/ TRADE UNION                 |      | 228             | 49              | 190             | 542                  | 298             | 298                | 260   | 270                    | 280                    |
| Dennedal Garcia                                   |      |                 |                 | 3,000           |                      | 2,720           | 2,720              |   |                        |                        |
| <b>Total Operating Transfers and Grants</b>       | 5    | 38,232          | 97,839          | 51,587          | 49,005               | 53,778          | 53,779             | 50,798  | 46,189                 | 49,623                 |

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 5 per cent. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment. Due to the increase of 7.74% in the salary component and 23,5% in the borrowing costs, the municipality could not adhere to the target of 5% as set out in budget circular 58.

The percentage increases of Eskom bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity service is largely outside the control of the council.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, etc. The current challenge facing the council is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either



operational efficiency gains or service level reductions. Within this framework the council has undertaken the tariff setting process relating to service charges as follows.

### 1.3.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the ratable value (Section 17(h) of the MPRA). In addition to this rebate, a further R35 000 reduction on the market value of a property will be granted in terms of the councils own Property Rates Policy;
- 10 per cent rebate will be granted on all residential properties in private owned towns and farm properties used for residential and business purposes.
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
- For pensioners the following rebates are implemented;

|   |  |  |     |
|---|--|--|-----|
| <b>REBATES - PENSIONERS</b>                       |  |  |     |
| Par 9.2.2.2 (a) INCOME: R 0.00 - R3 000 PER MONTH |  |  | 25% |
| Par 9.2.2.2 (b) INCOME: R3 001 - R8 000 PER MONTH |  |  | 15% |
|   |  |  |     |
| <b>ADDITIONAL TO ABOVE REBATES</b>                |  |  |     |
| Par 9.2.2.3 (a) 60YEAR - 75YEAR                   |  |  | 25% |
| Par 9.2.2.3 (b) 76YEAR - 85YEAR                   |  |  | 35% |
| Par 9.2.2.3 (c) 86YEAR AND OLDER                  |  |  | 45% |

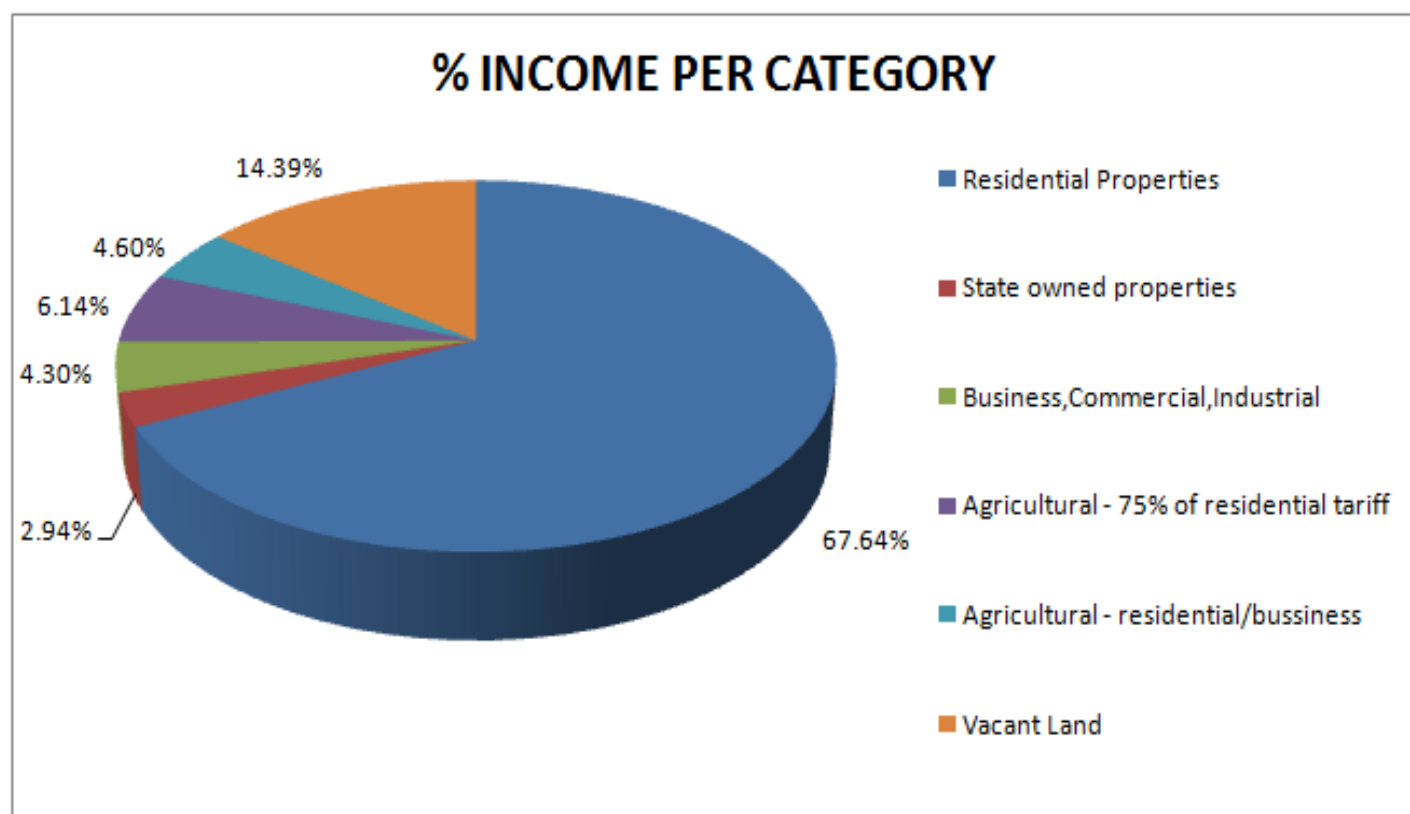
- The Municipality awards a 100 per cent grant-in-aid on the assessment rates of ratable properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work. The owner of such a property must apply to the Chief Financial Officer in the prescribed format for such a grant.

The categories of ratable properties for purposes of levying rates and the proposed rates for the 2012/13 financial year based on a 9 per cent increase from 1 July 2012 is set out below:

**TABLE 4 COMPARISON OF PROPOSED RATES TO LEVIED FOR THE 2012//13 FINANCIAL YEAR**

| CATEGORY                                 | TARIFF 2011/12  | PROPOSED<br>TARIFF 2012/13 | % INCREASE | INCOME            |
|--|-----------------|----------------------------|------------|-------------------|
| Residential Properties                   | 0.004224        | 0.004604                   | 9          | 37 793 245        |
| State owned properties                   | 0.008849        | 0.009645                   | 9          | 1 641 186         |
| Business,Commercial,Industrial           | 0.004324        | 0.004713                   | 9          | 2 402 187         |
| Agricultural - 75% of residential tariff | 0.001056        | 0.001151                   | 9          | 3 429 295         |
| Agricultural - residential/bussiness     | .004224/.004324 | .004604/.004713            | 9          | 2 570 682         |
| Vacant Land                              | 0.005909        | 0.006441                   | 9          | 8 039 155         |
|  |                 |                            |            | <b>55 875 749</b> |

The following graph shows the % income for each category;



### 1.3.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it does with electricity, since water is a scarce source. Hessequa equalized its water tariffs in 2011/2012, so that all consumers within its jurisdiction pay the same water tariffs. The tariff structure of the 2012/13 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption a higher rate, steadily increasing to a rate of R9.20 per kilolitre for consumption in excess of 70kl per 30 day period. The sliding scales that are applied enables the consumer to regulate his monthly water consumption.

Currently the municipality experiences enormous water losses possibly as a result of consumption that is not metered, underground leakages and pipe breaks. The infrastructure is very old, and pipelines are very very long, (in some instances in excess of 20 kilometers) and the possibility that underground leakages occurs is very real.

The following was taken into account with the compilation of the proposed tariffs:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

A tariff increase of plus minus 8 per cent from 1 July 2012 for water is proposed. In addition 6 kℓ water per 30-day period will again be granted free of charge to all indigent residents.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

### TABLE 5 PROPOSED WATER TARIFFS

The following table shows the impact of the proposed increases in water tariffs on the water charges for domestic and other consumers:

| CATEGORY                            | CURRENT TARIFFS<br>2011/2012<br>Rand per kl (excl. Vat) | PROPOSED TARIFFS<br>2012/2013<br>Rand per kl (excl. Vat) | % INCREASE |
|-------------------------------------|---|--|------------|
| <b><u>Residential</u></b>           |   |  |            |
| Water consumption: 1 - 6kl          | R 4.00  | R 4.30   | 7.5        |
| Water consumption: 7 - 15kl         | R 4.00  | R 4.30   | 7.5        |
| Water consumption: 16 - 30kl        | R 4.50  | R 4.85   | 7.8        |
| Water consumption: 31 - 40kl        | R 5.00  | R 5.40   | 8.0        |
| Water consumption: 41 - 50kl        | R 6.00  | R 6.50   | 8.3        |
| Water consumption: 51 - 70kl        | R 7.00  | R 7.55   | 7.9        |
| Water consumption: >70kl            | R 8.50  | R 9.20   | 8.2        |
| <b><u>Old Age Homes/Schools</u></b> |   |  |            |
| Water consumption: 1 - 70kl         | R 3.50  | R 3.80   | 8.6        |
| Water consumption: 70 - 90kl        | R 4.00  | R 4.30   | 7.5        |
| Water consumption: > 90kl           | R 5.00  | R 5.40   | 8.0        |

Indigent Customers – 6kl free water  
Basic fees increase by 8%  
Sundry fees increase by 10%

### 1.3.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 13.5 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2012.

Considering the Eskom increases, the consumer tariff had to be increased by an average of 11.03 per cent to offset the additional bulk purchase cost from 1 July 2012. Furthermore, it

should be noted that given the year on year increase of the tariff, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge. Although the guideline from NERSA recommends an increase of 13.56% on Block 2 (consumption 51 – 350kWh), the municipality raised the block for indigents with 6%. In the draft budget the tariff of indigents which consumption is above 350kWh per month has been increased to be the same as that of residential consumers. This has been implemented because the criteria of the draft indigent policy dictates the indigents cannot consume more than 350kWh per month. This is only for pre-paid electricity.

The council has implemented NERSA step tariffs as from 1 July 2011. The effect thereof is the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor). The council will maintain the current stepped structure of its electricity tariffs.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations, reticulation etc.). Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable for the consumers. It is therefore proposed that the taking up of loans or public funding as a strategy for funding of the infrastructure be considered and approved to spread the burden over the life span of the assets.

The following table shows the impact of the proposed increases in electricity tariff charges for domestic and other consumers:

**TABLE 6 COMPARISON BETWEEN CURRENT ELECTRICITY CHARGES AND PROPOSED INCREASES (DOMESTIC & BUSINESS)**

| CONSUMER   | Current Tariff           | Proposed Tariff          | % increase |
|--|--------------------------|--------------------------|------------|
|  | 2011/2012                | 2012/2013                |            |
|  | per kWh (excl. vat)<br>c | per kWh (excl. vat)<br>c |            |
| <b>1. Domestic - Conventional Meters</b>                       |                          |                          |            |
| 0 - 50kWH  | 0.5800                   | 0.6113                   | 5.40       |
| 51 - 350kWH  | 0.6700                   | 0.7609                   | 13.57      |
| 351 - 600kWH   | 0.7000                   | 0.7772                   | 11.03      |
| > 600 kWh  | 0.8200                   | 0.9104                   | 11.02      |
| Basic Charges and per Amp Fees increase by an average of 11.4% |                          |                          |            |
| <b>2. Domestic - Pre-paid Meters (Indigent)</b>                |                          |                          |            |
| 0 - 50kWH  | free                     | free                     |            |
| 51 - 350kWH  | 0.8100                   | 0.8586                   | 6.00       |
| 351 - 600kWH   | 0.9800                   | 1.2546                   | 28.02      |
| > 600 kWh  | 1.1400                   | 1.3435                   | 17.85      |
| <b>3. Domestic - Pre-paid Meters</b>                           |                          |                          |            |
| 0 - 50kWH  | 1.0400                   | 1.0962                   | 5.40       |
| 51 - 350kWH  | 1.0900                   | 1.2378                   | 13.56      |
| 351 - 600kWH   | 1.1300                   | 1.2546                   | 11.03      |
| > 600 kWh  | 1.2100                   | 1.3435                   | 11.03      |
| <b>4. Business - Conventional Meters</b>                       |                          |                          |            |
| Energy consumption per kWh                                     | 0.6800                   | 0.7752                   | 14.00      |
| Amp Fee - per amp  | 4.80                     | 5.30                     | 10.42      |
| Basic Fees   | 131.00                   | 145.00                   | 10.69      |
| <b>5. Business - Pre-paid Meters</b>                           |                          |                          |            |
| Energy consumption per kWh                                     | 1.0200                   | 1.1628                   | 14.00      |
| <b>6. Bulk Consumers</b>                                       |                          |                          |            |
| Energy consumption per kWh                                     | 0.4500                   | 0.5130                   | 14.00      |
| Per KVA  | 100.00                   | 111.00                   | 11.00      |
| Basic Fees - 11.03%  |                          |                          |            |

### 1.3.4 Sanitation and Impact of Tariff Increases

A tariff increase of 8% per cent for sanitation from 1 July 2012 is proposed.

The following table compares the current and proposed tariffs:

**TABLE 7 COMPARISON BETWEEN CURRENT SANITATION CHARGES AND INCREASES – (tariffs exclude vat)**

| <b>SEWERAGE</b>  | <b>Unit</b>       | <b>Tariff<br/>2011/2012</b> | <b>Tariff<br/>2012/2013</b> |
|--|-------------------|-----------------------------|-----------------------------|
| <b>Availability Fees - Empty Stands</b>                  |                   |                             |                             |
| All Empty Stands - Sewerage Network                      | Per erf per year  | R 1 035.00                  | R 1 118.00                  |
| All Empty Stands - Septic Tanks                          | Per erf per year  | R 516.00                    | R 557.00                    |
| <b><u>Basic Per Connections</u></b>                      |                   |                             |                             |
| 20mm water connection                                    | Per month         | R 86.25                     | R 93.00                     |
| 20mm water connection - 15% rebate                       | Per month         | R 86.25                     | R 93.00                     |
| 25mm water connection                                    | Per month         | R 110.33                    | R 119.00                    |
| 32mm water connection                                    | Per month         | R 153.50                    | R 166.00                    |
| 40mm water connection                                    | Per month         | R 215.33                    | R 233.00                    |
| 50mm water connection                                    | Per month         | R 313.00                    | R 338.00                    |
| 80mm water connection                                    | Per month         | R 732.00                    | R 791.00                    |
| <b><u>Basic Per Connections - Septic tanks</u></b>       |                   |                             |                             |
| Basic - All Septic Tank Consumers                        | Per erf per Month | 43.00                       | R 46.00                     |
| Basic - Septic Tank Consumers - 15% rebate               | Per erf per Month | 43.00                       | R 46.00                     |
| <b><u>4.Conservancy / Septic Tanks - Withdrawals</u></b> |                   |                             |                             |
| Tariff - withdrawal - All Consumers                      | Per withdrawal    | 152.00                      | R 164.00                    |
| After hours  | Per withdrawal    | 304.00                      | R 328.00                    |

### 1.3.5 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. For the MTREF period a small surplus has been budgeted for which grow steadily over the two outer years..

A 8 per cent increase in the waste removal tariff is proposed from 1 July 2012.

The following table compares current and proposed amounts payable from 1 July 2012:

**Table 8 Comparison between current waste removal fees and increases**

| <b><u>REFUSE REMOVALS</u></b>                 | <b>PER UNIT</b> | <b>Tariff:<br/>2011/2012</b> | <b>Tariff:<br/>2012/2013</b> |
|---|-----------------|------------------------------|------------------------------|
| <b>Domestic Households</b>                    | Per month       | R 66.00                      | R 71.00                      |
| <b>Business/Commercial/Industrial</b>         |                 |                              |                              |
| Maximum of two removals per week              | Per month       | R 148.50                     | R 160.00                     |
| <b>Bulk - Business /Commercial/Industrial</b> |                 |                              |                              |
| Maximum of three removals per week            | Per month       | R 329.00                     | R 355.00                     |
| <b>Bulk - Business /Commercial/Industrial</b> |                 |                              |                              |
| Maximum of four to seven removals per week    | Per month       | R 658.00                     | R 711.00                     |

### 1.3.6 Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

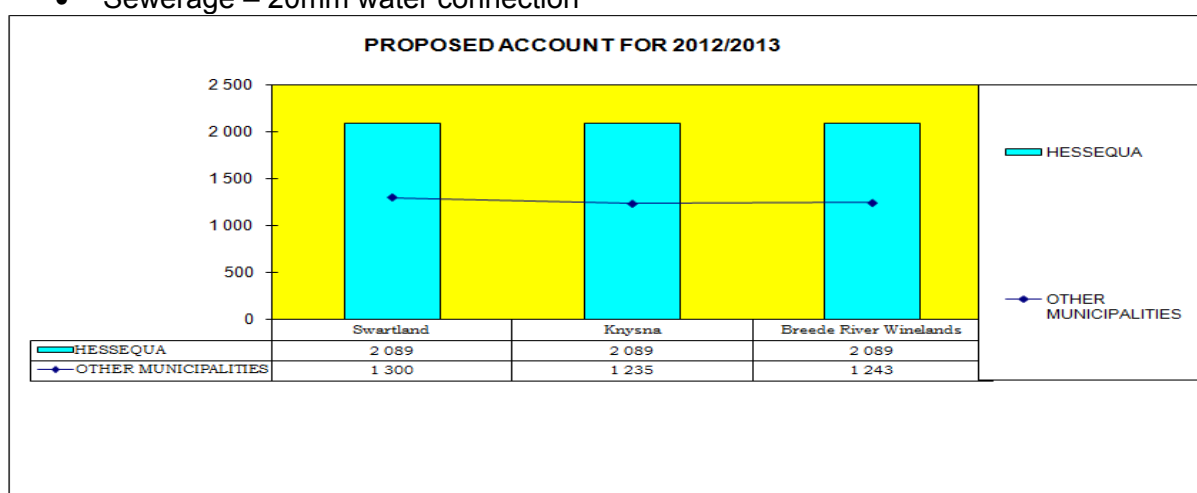
**Table 9 - Table SA14 – Household bills**

| Description   | Ref | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    | 2012/13 Medium Term Revenue & Expenditure Framework |                     |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|---------------------|------------------------|------------------------|
|   |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2012/13 % incr.                         | Budget Year 2012/13 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| <b>Rand/cent</b>  |     |                 |                 |                 |                      |                 |                    |   |                     |                        |                        |
| <b>Monthly Account for Household - 'Middle Income Range'</b>                              | 1   |                 |                 |                 |                      |                 |                    |   |                     |                        |                        |
| <b>Rates and services charges:</b>  |     |                 |                 |                 |                      |                 |                    |   |                     |                        |                        |
| Property rates  |     | 604.62          | 168.75          | 209.90          | 228.80               | 228.80          | 228.80             | 9.0%  | 249.38              | 269.33                 | 293.57                 |
| Electricity: Basic levy   |     | 213.35          | 253.76          | 341.00          | 374.00               | 374.00          | 374.00             | 11.0%   | 417.00              | 458.70                 | 504.57                 |
| Electricity: Consumption  |     | 171.26          | 162.00          | 537.00          | 733.00               | 733.00          | 733.00             | 11.0%   | 817.30              | 899.02                 | 988.92                 |
| Water: Basic levy   |     | 40.55           | 42.98           | 47.25           | 72.00                | 72.00           | 72.00              | 8.0%  | 78.00               | 84.24                  | 90.98                  |
| Water: Consumption  |     | 55.86           | 59.85           | 105.00          | 127.50               | 127.50          | 127.50             | 8.0%  | 138.00              | 149.04                 | 160.32                 |
| Sanitation  |     | 67.80           | 74.52           | 80.08           | 69.00                | 69.00           | 69.00              | 8.0%  | 93.00               | 100.44                 | 108.48                 |
| Refuse removal  |     | 52.74           | 56.96           | 61.25           | 66.00                | 66.00           | 66.00              | 8.0%  | 71.00               | 76.68                  | 82.81                  |
| Other   |     |                 |                 |                 |                      |                 |                    |   |                     |                        |                        |
| <b>sub-total</b>  |     | <b>1,206.18</b> | <b>818.82</b>   | <b>1,381.48</b> | <b>1,670.30</b>      | <b>1,670.30</b> | <b>1,670.30</b>    | <b>11.6%</b>  | <b>1,863.68</b>     | <b>2,037.45</b>        | <b>2,229.65</b>        |
| VAT on Services   |     | 84.22           | 91.01           | 164.02          | 201.81               | 201.81          | 201.81             |   | 226.00              | 247.54                 | 271.05                 |
| <b>Total large household bill:</b>  |     | <b>1,290.40</b> | <b>909.83</b>   | <b>1,545.50</b> | <b>1,872.11</b>      | <b>1,872.11</b> | <b>1,872.11</b>    | <b>11.6%</b>  | <b>2,089.68</b>     | <b>2,284.99</b>        | <b>2,500.70</b>        |
| <b>% increase/decrease</b>  |     |                 | <b>(29.5%)</b>  | <b>69.9%</b>    | <b>21.1%</b>         | <b>-</b>        | <b>-</b>           |   | <b>11.6%</b>        | <b>9.3%</b>            | <b>9.4%</b>            |
| <b>Monthly Account for Household - 'Affordable Range'</b>                                 | 2   |                 |                 |                 |                      |                 |                    |   |                     |                        |                        |
| <b>Rates and services charges:</b>  |     |                 |                 |                 |                      |                 |                    |   |                     |                        |                        |
| Property rates  |     | 418.59          | 168.75          | 145.31          | 158.40               | 158.40          | 158.40             | 9.0%  | 172.65              | 186.46                 | 205.11                 |
| Electricity: Basic levy   |     | 213.35          | 253.76          | 341.00          | 374.00               | 374.00          | 374.00             | 11.0%   | 417.00              | 458.70                 | 504.57                 |
| Electricity: Consumption  |     | 171.26          | 162.00          | 268.50          | 335.00               | 335.00          | 335.00             | 11.0%   | 375.42              | 412.95                 | 454.25                 |
| Water: Basic levy   |     | 40.55           | 42.98           | 47.25           | 72.00                | 72.00           | 72.00              | 8.0%  | 78.00               | 84.24                  | 90.98                  |
| Water: Consumption  |     | 55.86           | 59.85           | 87.50           | 105.00               | 105.00          | 105.00             | 8.0%  | 113.50              | 124.85                 | 137.33                 |
| Sanitation  |     | 67.80           | 74.52           | 80.08           | 69.00                | 69.00           | 69.00              | 8.0%  | 93.00               | 100.44                 | 108.48                 |
| Refuse removal  |     | 52.74           | 56.96           | 61.25           | 66.00                | 66.00           | 66.00              | 8.0%  | 71.00               | 76.68                  | 82.81                  |
| Other   |     |                 |                 |                 |                      |                 |                    |   |                     |                        |                        |
| <b>sub-total</b>  |     | <b>1,020.15</b> | <b>818.82</b>   | <b>1,030.89</b> | <b>1,179.40</b>      | <b>1,179.40</b> | <b>1,179.40</b>    | <b>12.0%</b>  | <b>1,320.57</b>     | <b>1,444.32</b>        | <b>1,583.53</b>        |
| VAT on Services   |     | 84.22           | 91.01           | 123.98          | 142.94               | 142.94          | 142.94             |   | 160.70              | 176.10                 | 192.98                 |
| <b>Total small household bill:</b>  |     | <b>1,104.37</b> | <b>909.83</b>   | <b>1,154.87</b> | <b>1,322.34</b>      | <b>1,322.34</b> | <b>1,322.34</b>    | <b>12.0%</b>  | <b>1,481.27</b>     | <b>1,620.42</b>        | <b>1,776.51</b>        |
| <b>% increase/decrease</b>  |     |                 | <b>(17.6%)</b>  | <b>26.9%</b>    | <b>14.5%</b>         | <b>-</b>        | <b>-</b>           |   | <b>12.0%</b>        | <b>9.4%</b>            | <b>9.6%</b>            |
| <b>Monthly Account for Household - 'Indigent' Household receiving free basic services</b> | 3   |                 |                 |                 |                      |                 |                    |   |                     |                        |                        |
| <b>Rates and services charges:</b>  |     |                 |                 |                 |                      |                 |                    |   |                     |                        |                        |
| Property rates  |     | -               | -               | -               | -                    | -               | -                  | 9.0%  | -                   | -                      | -                      |
| Electricity: Basic levy   |     | -               | -               | -               | -                    | -               | -                  | 11.0%   | -                   | -                      | -                      |
| Electricity: Consumption  |     | 107.04          | 134.34          | 161.10          | 201.00               | 201.00          | 201.00             | 11.0%   | 228.27              | 251.10                 | 277.31                 |
| Water: Basic levy   |     | -               | -               | -               | -                    | -               | -                  | 8.0%  | -                   | -                      | -                      |
| Water: Consumption  |     | 41.16           | 43.54           | 49.00           | 58.50                | 58.50           | 58.50              | 8.0%  | 63.20               | 68.26                  | 73.72                  |
| Sanitation  |     | -               | -               | -               | -                    | -               | -                  | 8.0%  | -                   | -                      | -                      |
| Refuse removal  |     | -               | -               | -               | -                    | -               | -                  | 8.0%  | -                   | -                      | -                      |
| Other   |     | -               | -               | -               | -                    | -               | -                  |   | -                   | -                      | -                      |
| <b>sub-total</b>  |     | <b>148.20</b>   | <b>177.88</b>   | <b>210.10</b>   | <b>259.50</b>        | <b>259.50</b>   | <b>259.50</b>      | <b>12.3%</b>  | <b>291.47</b>       | <b>319.36</b>          | <b>351.03</b>          |
| VAT on Services   |     | 20.75           | 24.90           | 29.41           | 36.33                | 36.33           | 36.33              |   | 40.81               | 44.71                  | 49.14                  |
| <b>Total small household bill:</b>  |     | <b>168.95</b>   | <b>202.78</b>   | <b>239.51</b>   | <b>295.83</b>        | <b>295.83</b>   | <b>295.83</b>      | <b>12.3%</b>  | <b>332.28</b>       | <b>364.07</b>          | <b>400.17</b>          |
| <b>% increase/decrease</b>  |     |                 | <b>20.0%</b>    | <b>18.1%</b>    | <b>23.5%</b>         | <b>-</b>        | <b>-</b>           |   | <b>12.3%</b>        | <b>9.6%</b>            | <b>9.9%</b>            |

The following graph shows a comparison between a comprehensive account of Hessequa against other municipality's in the Western Cape. Information was obtained from the Treasury document SA14 of the various municipalities.

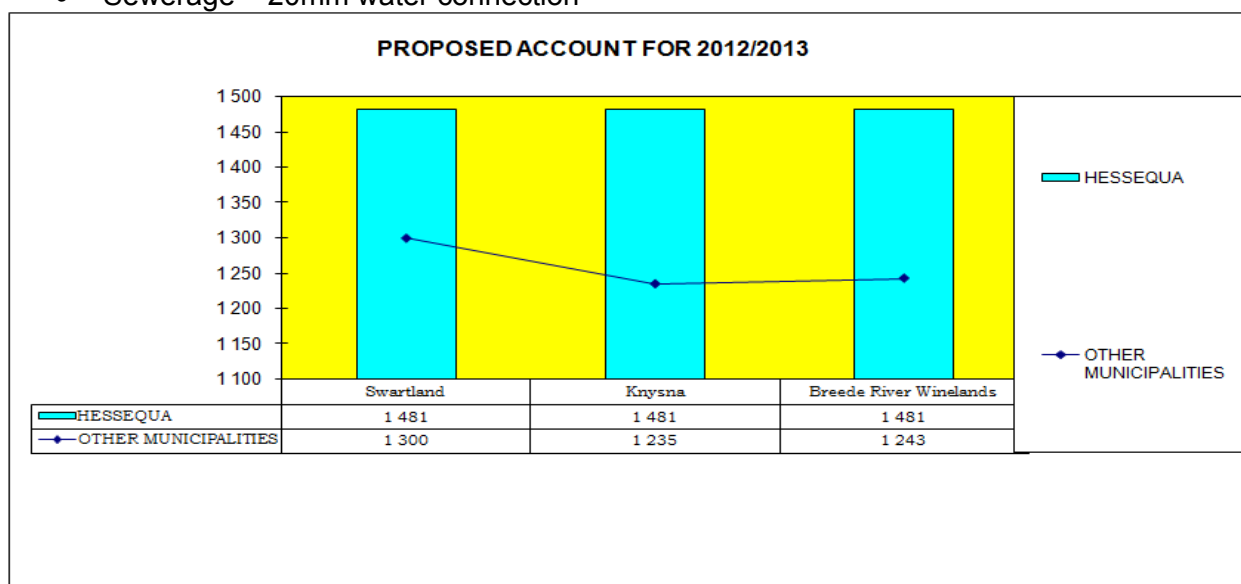
The following assumptions (which is the benchmark given by National Treasury) is applicable to the graph.

- Property Value = R700 000
- 60 Amp Electricity meter
- 1000Kwh usage
- 20 mm Water Connection
- 30 kl Water usage
- Refuse – one removal per week
- Sewerage – 20mm water connection



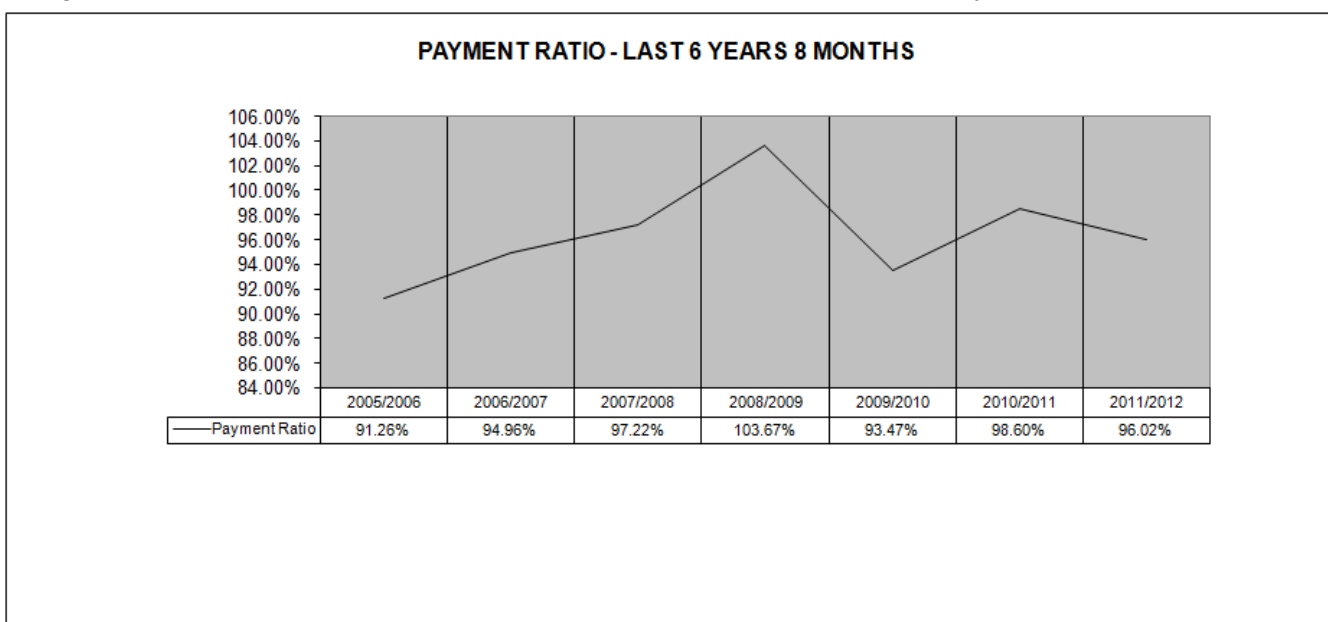
The following assumptions (which is the benchmark given by National Treasury) is applicable to the graph. It can be seen from the following table that the cheaper residence pays higher tariffs in Hessequa. This can be attributed to high basic fees. The revenue base of the municipality is seasonal, and ensures that it generates its revenue from fixed cost and consumption. This has a negative influence of the consumer who is a permanent resident.

- Property Value = R500 000
- 60 Amp Electricity meter
- 500Kwh usage
- 20 mm Water Connection
- 25 kl Water usage
- Refuse – one removal
- Sewerage – 20mm water connection





The following graph shows that council must credit control policy diligently. The MTREF budget indicates a collection of 'n 100%+ while the current collection is only 96%.



### 1.4.1 CAPITAL AND OPERATING

The expenditure framework for the 2012/13 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the IDP.
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and

The following table is a high level summary of the 2012/13 budget and MTREF (classified per main type of operating expenditure):

**Table 11 Summary of operating expenditure by standard classification item**

| Description                     | Ref  | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    |                   | 2012/13 Medium Term Revenue & |                        |                        |
|---------------------------------|------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|-------------------------------|------------------------|------------------------|
| R thousand                      | 1    | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2012/13           | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| <b>Expenditure By Type</b>      |      |                 |                 |                 |                      |                 |                    |                   |                               |                        |                        |
| Employee related costs          | 2    | 51,120          | 68,190          | 86,089          | 90,073               | 90,073          | 90,074             | 90,074            | 97,050                        | 102,164                | 107,546                |
| Remuneration of councillors     |      | 3,627           | 4,082           | 4,093           | 4,366                | 4,366           | 4,366              | 4,366             | 4,758                         | 5,067                  | 5,396                  |
| Debt impairment                 | 3    |                 | 2,106           | 3,393           | 2,635                | 2,635           | 2,635              | 2,635             | 3,089                         | 3,275                  | 3,471                  |
| Depreciation & asset impairment | 2    | 9,665           | 14,131          | 15,598          | 16,476               | 16,476          | 16,476             | 16,476            | 17,741                        | 19,699                 | 21,956                 |
| Finance charges                 |      | 3,815           | 4,260           | 5,601           | 7,617                | 7,617           | 7,617              | 7,617             | 9,414                         | 10,448                 | 11,656                 |
| Bulk purchases                  | 2    | 27,700          | 35,858          | 44,874          | 56,268               | 56,268          | 56,268             | 56,268            | 63,667                        | 72,048                 | 81,544                 |
| Other materials                 | 8    |                 |                 |                 |                      |                 |                    |                   |                               |                        |                        |
| Contracted services             |      | 696             | 799             | 3,172           | 3,389                | 3,389           | 3,389              | 3,389             | 4,210                         | 4,374                  | 4,540                  |
| Transfers and grants            |      | 5,300           | 6,764           | 8,893           | 9,737                | 9,737           | 9,737              | 9,737             | 12,753                        | 13,516                 | 14,316                 |
| Other expenditure               | 4, 5 | 65,060          | 118,070         | 68,067          | 69,854               | 72,563          | 72,563             | 72,563            | 65,932                        | 66,552                 | 68,708                 |
| Loss on disposal of PPE         |      |                 |                 |                 |                      |                 |                    |                   |                               |                        |                        |
| <b>Total Expenditure</b>        |      | <b>166,984</b>  | <b>254,260</b>  | <b>239,781</b>  | <b>260,415</b>       | <b>263,124</b>  | <b>263,125</b>     | <b>263,125</b>    | <b>278,614</b>                | <b>297,143</b>         | <b>319,134</b>         |

The budgeted allocation for employee related costs for the 2012/13 financial year totals R97,0 million, which equals 34,84 per cent of the total operating expenditure. The guidelines

set by National Treasury circular was 5%. New posts of ±R6,5 million have been cut. There were approximately 51 new posts on the budget but this has been pruned to 25 posts that have only been budgeted for 9 months. The temporally wages and overtime budget is the same as for 2011/12, and it must be ensured that these two votes are not overspend in 2012/13. Serious problems will arise if these two budget votes are not extremely well managed. Employee related cost thereby increases by 7,74% for the 2012/13 Budget year.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account and provision has been made for a 6,5% increase in this remuneration in the 2012/13 budget year. The budget for 2012/2013 make provision for one additional mayoral committee member.

The provision of debt impairment was determined based on an annual collection rate of 97% and the Credit Control Policy of Hessequa. While this expenditure is considered to be a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R17,741 million for the 2012/13 financial year and equates to 6,37 per cent of the total operating expenditure.

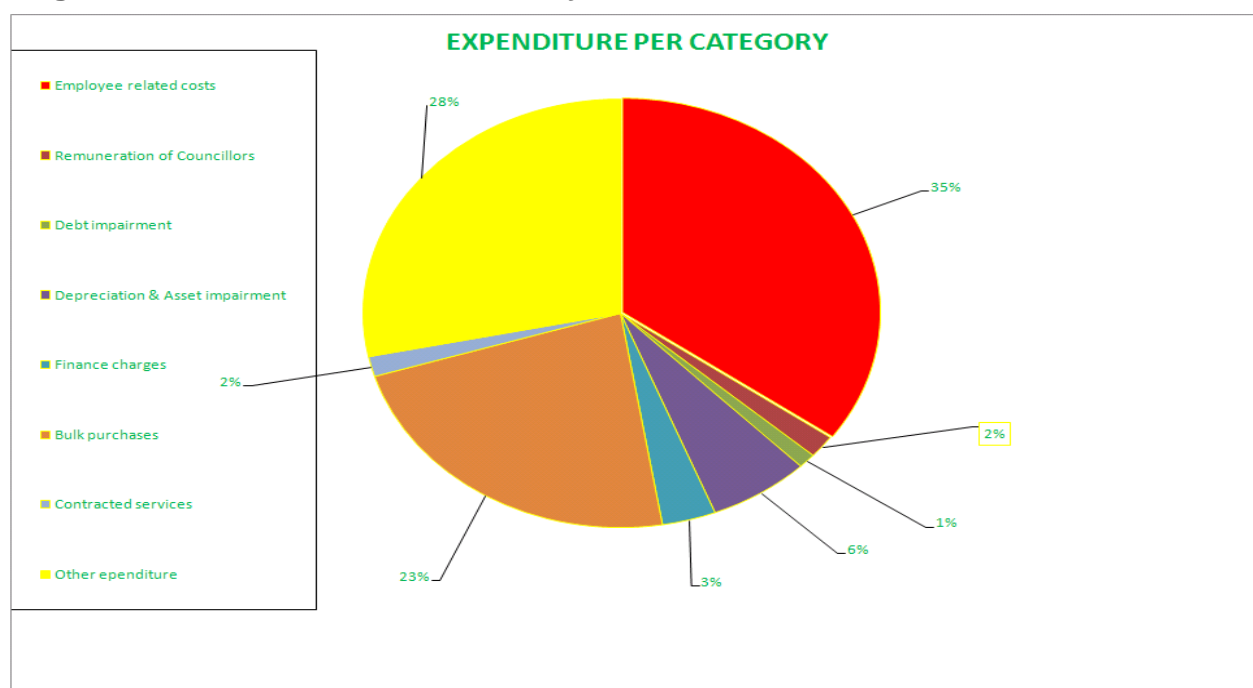
Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make up 3,38 per cent (R9,414 million) of operating expenditure. A much lower capital budget from own funds has been tabled for the 2012/13 year which will result in finance charges increasing in smaller increments.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Overberg Water Board. The annual price increases have been factored into the budget appropriations whereby electricity was increased with 13,5% as prescribed in the guideline on Municipal electricity price increase for 2012/13 by NERSA (9 March 2012).

Contracted services increases by 24,2% in the 2012/13 Budget year due to fire brigade (8% increase) and recycling of refuse (R600 000) as a new item.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Other expenditure decreases from R78,6 million in 2011/12 to R73,2 million in 2012/13 and capped at 1,3 and 3,3 per cent for the two outer years.

The following table gives a breakdown of the main expenditure categories for the 2012/13 financial year.

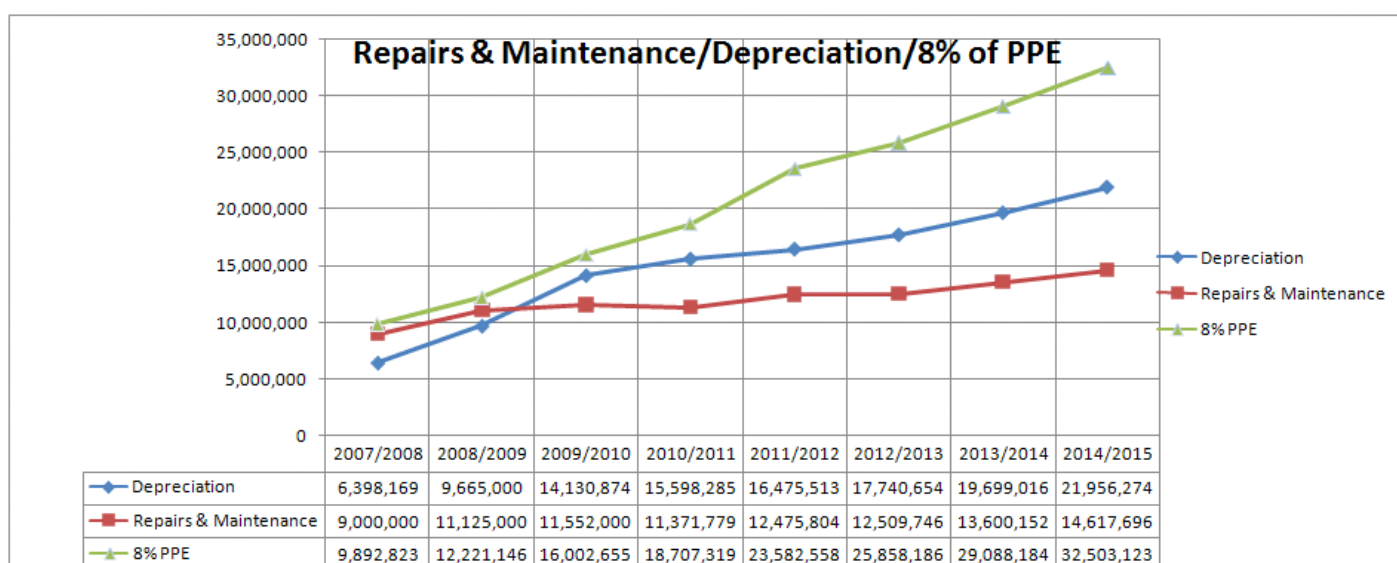


**(FIGURE 1 MAIN OPERATIONAL EXPENDITURE CATEGORIES FOR THE 2012/13 FINANCIAL YEAR)**

#### 1.4.1.1 Priority given to repairs and maintenance

National treasury has recommended that allocation to repairs and maintenance should be 8% of PPE. Hessequa does not meet this recommendation. The following graph provides an analysis, between depreciation, operational repairs and maintenance as well as the recommended allocation as per PPE.

The following table clearly reflects that there is no strategy in place (Budget allocations) to address the backlogs of maintenance.



During the compilation of the 2012/13 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of Hessequa's infrastructure. This strategic imperative remains a priority, as can be seen by the budget appropriations over the MTREF.

The table below provides a breakdown of the repairs and maintenance in relation to asset class:

**Table 12 Repairs and maintenance per asset class**

| Description                            | Ref  | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    | 2012/13 Medium Term Revenue & |                        |                        |
|--|------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------------------|------------------------|------------------------|
| R thousand                             |      | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2012/13           | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| Depreciation & asset impairment        |      | 9,665           | 14,131          | 15,598          | 16,476               | 16,476          | 16,476             | 17,741                        | 19,699                 | 21,956                 |
| Repairs and Maintenance by Asset Class | 3    | 11,125          | 11,372          | 12,476          | 12,908               | 12,662          | 12,662             | 12,510                        | 13,600                 | 14,618                 |
| Infrastructure - Road transport        |      | 2,456           | 2,329           | 2,781           | 2,030                | 2,030           | 2,030              | 2,306                         | 2,141                  | 2,252                  |
| Infrastructure - Electricity           |      | 1,716           | 1,717           | 1,439           | 1,389                | 1,432           | 1,432              | 1,468                         | 1,570                  | 1,670                  |
| Infrastructure - Water                 |      | 414             | 473             | 634             | 367                  | 367             | 367                | 448                           | 482                    | 517                    |
| Infrastructure - Sanitation            |      | 567             | 432             | 485             | 295                  | 295             | 295                | 328                           | 349                    | 367                    |
| Infrastructure - Other                 |      | 166             | 187             | 222             | 218                  | 218             | 218                | 179                           | 270                    | 288                    |
| Infrastructure                         |      | 5,320           | 5,138           | 5,562           | 4,298                | 4,341           | 4,341              | 4,730                         | 4,811                  | 5,094                  |
| Community                              |      | 288             | 454             | 819             | 1,003                | 743             | 743                | 953                           | 908                    | 954                    |
| Heritage assets                        |      | -               | -               | -               | -                    | -               | -                  | -                             | -                      | -                      |
| Investment properties                  |      | -               | -               | -               | -                    | -               | -                  | -                             | -                      | -                      |
| Other assets                           | 6, 7 | 5,517           | 5,780           | 6,095           | 7,607                | 7,578           | 7,578              | 6,827                         | 7,881                  | 8,569                  |
| <b>TOTAL EXPENDITURE OTHER ITEMS</b>   |      | <b>20,790</b>   | <b>25,503</b>   | <b>28,074</b>   | <b>29,383</b>        | <b>29,138</b>   | <b>29,138</b>      | <b>30,250</b>                 | <b>33,299</b>          | <b>36,574</b>          |

For the 2012/13 financial year, 18,5% or R2,306 million toward road transport and 11,8% or R1,468 million towards electricity are budgeted for.

#### 1.4.1.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Hessequa's Indigent Policy. The Policy has two qualifying income limitations where by residence can register. Category A is for residences who earn R3000 or less per month, and category B for residence who earn between R3001 – R3500 per month. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in MBRR A10 (Basic Service Delivery Measurement).

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

The following graph shows the cost of free basic services, rate rebates, 6kl water and 50 kWh free units. (amount R'000)

| Description  | Ref | 2008/9        | 2009/10       | 2010/11       | Current Year 2011/12 |                 |                    | 2012/13 Medium Term Revenue & |                        |                        |
|--|-----|---------------|---------------|---------------|----------------------|-----------------|--------------------|-------------------------------|------------------------|------------------------|
|  |     | Outcome       | Outcome       | Outcome       | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2012/13           | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| Property rates (R15 000 threshold rebate)                                  |     | 2,457         | 2,771         | 3,030         | 3,283                | 3,283           | 3,283              | 3,578                         | 4,008                  | 4,408                  |
| Property rates (other exemptions, reductions and rebates)                  |     | 665           | 919           | 992           | 1,084                | 1,084           | 1,084              | 1,306                         | 1,376                  | 1,476                  |
| Water  |     | 3,476         | 3,297         | 3,407         | 3,826                | 3,826           | 3,826              | 4,289                         | 4,579                  | 4,979                  |
| Sanitation   |     | 1,760         | 3,152         | 3,250         | 3,676                | 3,676           | 3,676              | 4,826                         | 5,067                  | 5,473                  |
| Electricity/other energy   |     | 1,588         | 1,583         | 1,710         | 2,055                | 2,055           | 2,055              | 2,406                         | 2,149                  | 2,364                  |
| Refuse   |     | 1,504         | 2,539         | 2,742         | 2,962                | 2,962           | 2,962              | 3,981                         | 4,306                  | 4,369                  |
| Municipal Housing - rental rebates   |     |               |               |               |                      |                 |                    |                               |                        |                        |
| Housing - top structure subsidies  | 6   |               |               |               |                      |                 |                    |                               |                        |                        |
| Other  |     | 307           | 307           | 307           | 132                  | 132             | 132                | 309                           | 325                    | 351                    |
| <b>Total revenue cost of free services provided (total social package)</b> |     | <b>11,757</b> | <b>14,568</b> | <b>15,438</b> | <b>17,018</b>        | <b>17,018</b>   | <b>17,018</b>      | <b>20,695</b>                 | <b>21,810</b>          | <b>23,420</b>          |

## 1.4.2 Capital expenditure

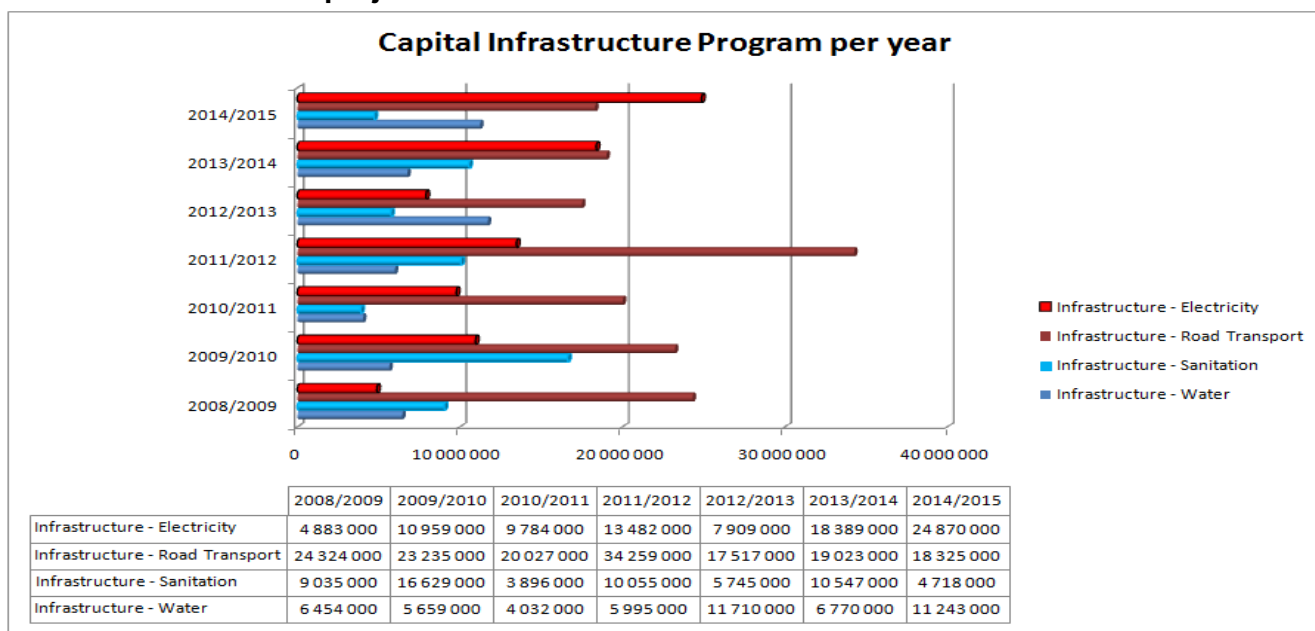
The following table provides a breakdown of budgeted capital expenditure by vote:

**Table 13 2011/12 Medium-term capital budget per vote**

| Vote Description                            | Ref      | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    |                   | 2012/13 Medium Term Revenue & |                        |                        |
|---|----------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|-------------------------------|------------------------|------------------------|
| R thousand                                  | 1        | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2012/13           | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| <b>Capital Expenditure - Standard</b>       |          |                 |                 |                 |                      |                 |                    |                   |                               |                        |                        |
| <i>Governance and administration</i>        |          | 321,156         | 2,251           | 10,456          | 3,087                | 3,306           | 3,306              | 3,307             | 3,079                         | 1,183                  | 966                    |
| Executive and council                       |          | 24              | 21              | 4               | 2                    | 2               | 2                  | 2                 |                               |                        |                        |
| Budget and treasury office                  |          | 321,132         | 2,230           | 206             | 308                  | 235             | 235                | 235               | 335                           | 282                    | 18                     |
| Corporate services                          |          |                 |                 | 10,246          | 2,777                | 3,070           | 3,070              | 3,070             | 2,744                         | 902                    | 948                    |
| <i>Community and public safety</i>          |          | 2,566           | 2,776           | 2,940           | 3,107                | 3,240           | 3,240              | 3,239             | 2,955                         | 1,707                  | 1,370                  |
| Community and social services               |          | 524             | 603             | 293             | 518                  | 561             | 561                | 561               | 1,155                         | 610                    | 584                    |
| Sport and recreation                        |          | 2,011           | 1,757           | 1,397           | 2,062                | 2,229           | 2,229              | 2,229             | 1,226                         | 697                    | 576                    |
| Public safety                               |          | 31              | 416             | 1,226           | 527                  | 449             | 449                | 449               | 574                           | 400                    | 210                    |
| Housing                                     |          |                 |                 | 24              |                      |                 |                    |                   |                               |                        |                        |
| Health                                      |          |                 |                 |                 |                      |                 |                    |                   |                               |                        |                        |
| <i>Economic and environmental services</i>  |          | 24,511          | 23,264          | 20,027          | 28,020               | 34,259          | 34,259             | 34,259            | 17,517                        | 19,023                 | 18,825                 |
| Planning and development                    |          | 149             | 15              |                 |                      |                 |                    |                   |                               |                        |                        |
| Road transport                              |          | 24,324          | 23,235          | 20,027          | 28,020               | 34,259          | 34,259             | 34,259            | 17,517                        | 19,023                 | 18,325                 |
| Environmental protection                    |          | 38              | 14              |                 |                      |                 |                    |                   |                               |                        | 500                    |
| <i>Trading services</i>                     |          | 21,393          | 33,249          | 18,302          | 33,908               | 30,962          | 30,962             | 30,962            | 25,365                        | 38,160                 | 43,483                 |
| Electricity                                 |          | 4,883           | 10,961          | 9,784           | 15,743               | 13,482          | 13,482             | 13,482            | 7,909                         | 18,389                 | 24,870                 |
| Water                                       |          | 6,454           | 5,659           | 4,032           | 7,987                | 5,995           | 5,995              | 5,995             | 11,710                        | 6,770                  | 11,243                 |
| Waste water management                      |          | 9,035           | 16,629          | 3,896           | 8,678                | 10,055          | 10,055             | 10,055            | 5,745                         | 10,547                 | 4,718                  |
| Waste management                            |          | 1,021           |                 | 590             | 1,500                | 1,430           | 1,430              | 1,430             | -                             | 2,455                  | 2,653                  |
| <i>Other</i>                                |          | 50              | 17              |                 |                      |                 |                    |                   |                               |                        |                        |
| <b>Total Capital Expenditure - Standard</b> | <b>3</b> | <b>369,675</b>  | <b>61,557</b>   | <b>51,724</b>   | <b>68,122</b>        | <b>71,767</b>   | <b>71,767</b>      | <b>71,767</b>     | <b>48,915</b>                 | <b>60,074</b>          | <b>64,643</b>          |

The total 2011/12 Capital Budget of R71,767 million decreases dramatically for 2012/13 to R48,915 million. This decrease has been necessitated due to a shortage of own capital financing within Hessequa. For the 2012/13 budget, round R38,6 million been budget for the development of infrastructure(79,0% of total Capital Budget) as opposed to the R61,561 million (85,8% of the total Capital Budget) for the 2011/12 Budget. In the outer years the Capital Budget for development for infrastructure increases to R48,010 million (+24,4%) in 2013/14 and R54,689 million in 2014/15. In 2012/13 transport and roads receives the highest allocation of R17,517 million followed by water infrastructure with R11,710million, electricity infrastructure with R7,909 million and sanitation with R5,745 million.

The following graph provides a breakdown of the capital budget to be spent on infrastructure related projects over the MTREF.



Further detail relating to asset classes and proposed capital expenditure is contained in Table 23 MBRR A9 (Asset Management).

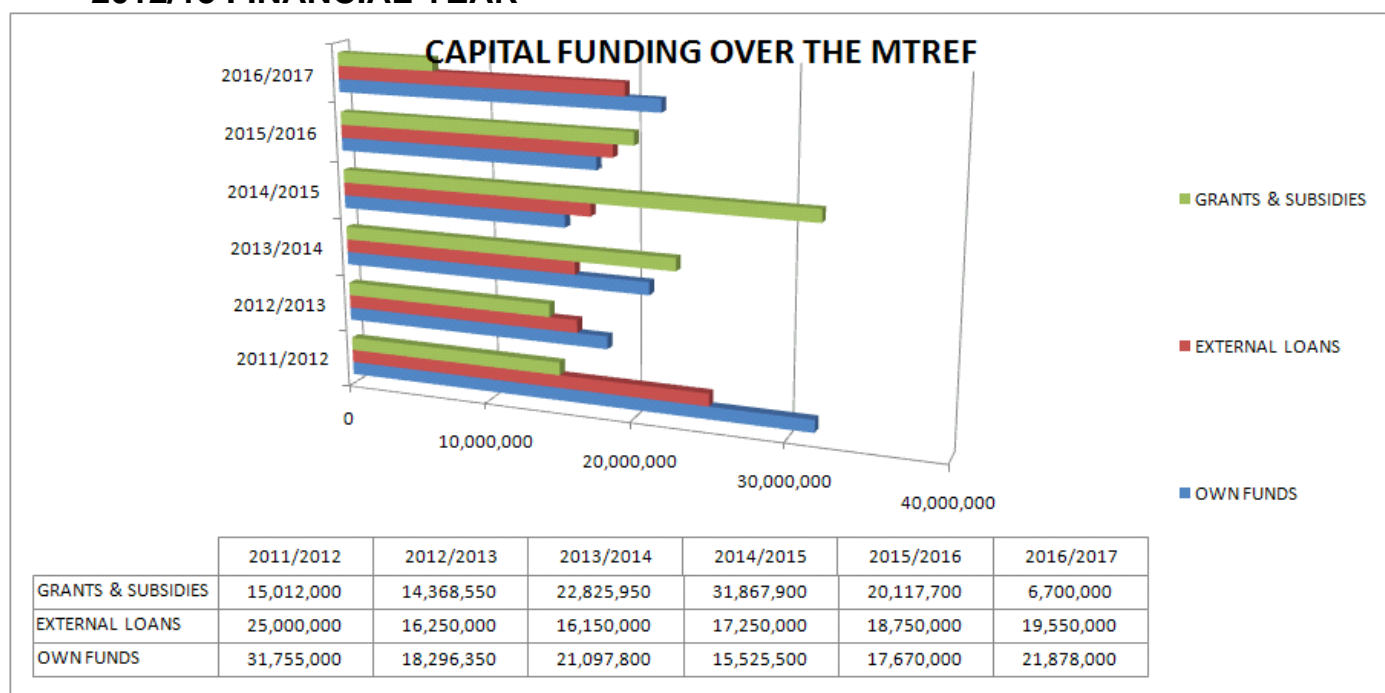
Some of the salient projects to be undertaken over the medium-term includes, amongst others:

- Sewerage Works Phase 2 (Kwezi V3 report) Stillbay – R3,15million / Loan
- New Reservoir Heidelberg – R3,7million / MIG
- New Reservoir Albertinia – R3,9million / MIG
- 250 Sub-economical Houses Slangrivier – R2million / Loan – DME
- Teerstrate Hessequa – R8,785 million / Loan – CRR
- Upgrading of Pavements Riversdale – R1million / EPW
- Stormwater and pavements – Hessequa – R3,6m /MIG

### 1.4.3 FINANCING OF CAPITAL

Own funding of the Capital programme decrease dramatically for the 2012/13 financial year. External Loan for 2012/13 will be R16,250 million and own funds (CRR) will be R18,296 million.

### THE FOLLOWING GRAPH SHOWS THE FUNDING SOURCES FOR THE 2012/13 FINANCIAL YEAR



### 1.5 Annual Budget Tables - Parent Municipality

The following pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2012/13 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.



**Table 14 MBRR Table A1 - Budget Summary**

| Description  | 2008/9           | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    |                   | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|------------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|  | Audited Outcome  | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| <b>R thousands</b>   |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Financial Performance</b>   |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Property rates   | 31,812           | 40,125          | 42,631          | 47,564               | 47,564          | 47,564             | 47,564            | 51,862  | 58,111                 | 63,941                 |
| Service charges  | 84,249           | 100,438         | 118,221         | 134,031              | 134,032         | 134,031            | 134,031           | 151,009   | 169,399                | 187,468                |
| Investment revenue   | 10,356           | 5,897           | 3,967           | 4,500                | 3,800           | 3,800              | 3,800             | 4,020   | 4,140                  | 4,260                  |
| Transfers recognised - operational                                   | 43,424           | 99,895          | 48,481          | 48,761               | 53,778          | 53,778             | 53,778            | 50,798  | 46,189                 | 49,623                 |
| Other own revenue  | 15,499           | 12,712          | 26,314          | 31,555               | 12,421          | 12,421             | 12,421            | 13,057  | 22,866                 | 33,730                 |
| <b>Total Revenue (excluding capital transfers and contributions)</b> | <b>185,340</b>   | <b>259,067</b>  | <b>239,615</b>  | <b>266,411</b>       | <b>251,594</b>  | <b>251,594</b>     | <b>251,594</b>    | <b>270,745</b>                                      | <b>300,705</b>         | <b>339,022</b>         |
| Employee costs   | 51,120           | 68,190          | 86,089          | 90,073               | 90,073          | 90,074             | 90,074            | 97,050  | 102,164                | 107,546                |
| Remuneration of councillors  | 3,627            | 4,082           | 4,093           | 4,366                | 4,366           | 4,366              | 4,366             | 4,758   | 5,067                  | 5,396                  |
| Depreciation & asset impairment                                      | 9,665            | 14,131          | 15,598          | 16,476               | 16,476          | 16,476             | 16,476            | 17,741  | 19,699                 | 21,956                 |
| Finance charges  | 3,815            | 4,260           | 5,601           | 7,617                | 7,617           | 7,617              | 7,617             | 9,414   | 10,448                 | 11,656                 |
| Materials and bulk purchases   | 27,700           | 35,858          | 44,874          | 56,268               | 56,268          | 56,268             | 56,268            | 63,667  | 72,048                 | 81,544                 |
| Transfers and grants   | 5,300            | 6,764           | 8,893           | 9,737                | 9,737           | 9,737              | 9,737             | 12,753  | 13,516                 | 14,316                 |
| Other expenditure  | 65,757           | 120,975         | 74,632          | 75,878               | 78,587          | 78,587             | 78,587            | 73,231  | 74,201                 | 76,719                 |
| <b>Total Expenditure</b>   | <b>166,984</b>   | <b>254,260</b>  | <b>239,781</b>  | <b>260,415</b>       | <b>263,124</b>  | <b>263,125</b>     | <b>263,125</b>    | <b>278,614</b>                                      | <b>297,143</b>         | <b>319,134</b>         |
| <b>Surplus/(Deficit)</b>   | <b>18,356</b>    | <b>4,807</b>    | <b>(166)</b>    | <b>5,996</b>         | <b>(11,530)</b> | <b>(11,531)</b>    | <b>(11,531)</b>   | <b>(7,868)</b>                                      | <b>3,562</b>           | <b>19,888</b>          |
| Transfers recognised - capital                                       | 28,844           | 30,782          | 7,842           | 16,432               | 15,012          | 15,012             | 15,012            | 14,369  | 22,826                 | 31,868                 |
| Contributions recognised - capital & contributed                     | 3,205            | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) after capital transfers &amp; contributions</b> | <b>50,405</b>    | <b>35,589</b>   | <b>7,676</b>    | <b>22,428</b>        | <b>3,482</b>    | <b>3,481</b>       | <b>3,481</b>      | <b>6,500</b>  | <b>26,388</b>          | <b>51,756</b>          |
| Share of surplus/ (deficit) of associate                             | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) for the year</b>                                | <b>50,405</b>    | <b>35,589</b>   | <b>7,676</b>    | <b>22,428</b>        | <b>3,482</b>    | <b>3,481</b>       | <b>3,481</b>      | <b>6,500</b>  | <b>26,388</b>          | <b>51,756</b>          |
| <b>Capital expenditure &amp; funds sources</b>                       |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Capital expenditure</b>   | <b>369,675</b>   | <b>61,557</b>   | <b>51,724</b>   | <b>68,122</b>        | <b>71,767</b>   | <b>71,767</b>      | <b>71,767</b>     | <b>48,915</b>                                       | <b>60,074</b>          | <b>64,643</b>          |
| Transfers recognised - capital                                       | 32,049           | 30,782          | 7,842           | 16,432               | 15,012          | 15,012             | 15,012            | 14,369  | 22,826                 | 31,868                 |
| Public contributions & donations                                     | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Borrowing  | 9,478            | 14,808          | 22,023          | 25,000               | 25,000          | 25,000             | 25,000            | 16,250  | 16,150                 | 17,250                 |
| Internally generated funds   | 328,148          | 15,967          | 21,859          | 26,690               | 31,755          | 31,755             | 31,755            | 18,296  | 21,098                 | 15,526                 |
| <b>Total sources of capital funds</b>                                | <b>369,675</b>   | <b>61,557</b>   | <b>51,724</b>   | <b>68,122</b>        | <b>71,767</b>   | <b>71,767</b>      | <b>71,767</b>     | <b>48,915</b>                                       | <b>60,074</b>          | <b>64,643</b>          |
| <b>Financial position</b>  |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Total current assets   | 124,507          | 95,680          | 101,528         | 71,337               | 55,724          | 55,724             | 55,724            | 35,402  | 32,669                 | 53,732                 |
| Total non current assets   | 472,977          | 513,636         | 549,712         | 607,687              | 604,401         | 604,401            | 604,401           | 633,812   | 672,157                | 712,525                |
| Total current liabilities  | 78,669           | 50,177          | 60,607          | 47,680               | 47,680          | 47,681             | 47,680            | 45,199  | 49,321                 | 52,806                 |
| Total non current liabilities  | 57,597           | 68,321          | 92,139          | 110,472              | 110,472         | 110,472            | 110,472           | 115,540   | 121,917                | 130,688                |
| Community wealth/Equity  | 461,217          | 490,818         | 498,493         | 520,872              | 501,973         | 501,973            | 501,973           | 508,474   | 533,587                | 582,762                |
| <b>Cash flows</b>  |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Net cash from (used) operating                                       | 61,748           | 15,072          | 24,796          | 19,914               | 18,961          | 18,961             | 18,961            | 26,326  | 41,779                 | 57,888                 |
| Net cash from (used) investing                                       | (51,229)         | (60,666)        | (39,928)        | (47,970)             | (70,040)        | (70,040)           | (70,040)          | (46,152)  | (48,374)               | (42,324)               |
| Net cash from (used) financing                                       | 4,003            | 12,078          | 26,358          | 18,606               | 16,315          | 16,315             | 16,315            | 6,218   | 5,761                  | 7,530                  |
| <b>Cash/cash equivalents at the year end</b>                         | <b>94,413</b>    | <b>60,897</b>   | <b>72,124</b>   | <b>62,674</b>        | <b>27,910</b>   | <b>27,910</b>      | <b>27,910</b>     | <b>14,302</b>                                       | <b>13,468</b>          | <b>36,562</b>          |
| <b>Cash backing/surplus reconciliation</b>                           |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Cash and investments available                                       | 94,413           | 60,897          | 72,123          | 43,518               | 27,906          | 27,906             | 27,906            | 15,424  | 16,204                 | 40,730                 |
| Application of cash and investments                                  | 227,354          | 36,811          | 56,954          | 27,139               | 21,855          | 21,855             | 21,855            | 16,836  | 11,376                 | 20,198                 |
| <b>Balance - surplus (shortfall)</b>                                 | <b>(132,941)</b> | <b>24,086</b>   | <b>15,169</b>   | <b>16,379</b>        | <b>6,050</b>    | <b>6,051</b>       | <b>6,051</b>      | <b>(1,413)</b>                                      | <b>4,828</b>           | <b>20,531</b>          |
| <b>Asset management</b>  |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Asset register summary (WDV)   | 472,947          | 513,608         | 549,685         | 607,656              | 604,377         | 604,377            | 633,790           | 633,790   | 672,136                | 712,505                |
| Depreciation & asset impairment                                      | 9,665            | 14,131          | 15,598          | 16,476               | 16,476          | 16,476             | 17,741            | 17,741  | 19,699                 | 21,956                 |
| Renewal of Existing Assets   | 21,748           | 22,044          | 17,389          | 41,092               | 42,497          | 42,497             | 42,497            | 16,978  | 21,907                 | 17,202                 |
| Repairs and Maintenance  | 11,125           | 11,372          | 12,476          | 12,908               | 12,662          | 12,662             | 12,510            | 12,510  | 13,600                 | 14,618                 |
| <b>Free services</b>   |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Cost of Free Basic Services provided                                 | 694              | 881             | 926             | 1,043                | 1,043           | 1,043              | 1,292             | 1,292   | 1,342                  | 1,432                  |
| Revenue cost of free services provided                               | 11,757           | 14,568          | 15,438          | 17,018               | 17,018          | 17,018             | 20,695            | 20,695  | 21,810                 | 23,420                 |
| <b>Households below minimum service level</b>                        |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Water:   | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Sanitation/sewerage:   | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Energy:  | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Refuse:  | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |

## **Explanatory notes to MBRR Table A1 - Budget Summary**

1. Table A1 is a budget summary and provides a concise overview of Hessequa's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts to be approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasizes the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
  - a. The operating surplus is positive over the MTREF period with the Budgeted Surplus for 2012/13 at R6,500 million.
  - b. Capital expenditure is balanced by capital funding sources, of which
    - i. Transfers recognized is reflected on the Financial Performance Budget;
    - ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
    - iii. Internally generated funds is financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that hessequa's cash flows decrease on an annual basis indicates that it is necessary that cash recourses must be found to finance the capital budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years Hessequa has been paying attention to managing this aspect of its finances, and consequently many of its obligations are cash-backed. However, the reconciliation reflects that Hessequa's cash backing/surplus reconciliation has decreased to a surplus of R6,051 million for 2011/12. The reconciliation shows a shortfall of R1.413 million for the 2012/13 financial year with improvements to R4,828 million in 2013/14 and R20,531 million in 2014/15. Die improvement in the outer years are due to sale of land and must be insured that these transactions do occur.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase.



**Table 15 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)**

| Standard Classification Description        | Ref | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
| R thousand                                 | 1   | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| <b>Revenue - Standard</b>                  |     |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <i>Governance and administration</i>       |     | 61,317          | 69,513          | 83,321          | 80,517               | 79,818          | 79,818             | 89,416  | 98,414                 | 107,946                |
| Executive and council                      |     | 15,613          | 17,720          | 21,935          | 23,770               | 23,678          | 23,678             | 29,118  | 31,359                 | 34,420                 |
| Budget and treasury office                 |     | 44,537          | 50,620          | 51,231          | 55,357               | 54,567          | 54,567             | 58,685  | 65,319                 | 71,660                 |
| Corporate services                         |     | 1,167           | 1,173           | 10,154          | 1,390                | 1,573           | 1,573              | 1,614   | 1,736                  | 1,865                  |
| <i>Community and public safety</i>         |     | 28,146          | 82,209          | 30,199          | 30,522               | 32,128          | 32,128             | 34,444  | 28,559                 | 30,432                 |
| Community and social services              |     | 1,159           | 1,307           | 987             | 1,057                | 2,613           | 2,613              | 4,775   | 615                    | 663                    |
| Sport and recreation                       |     | 6,081           | 5,869           | 6,919           | 6,991                | 6,991           | 6,991              | 7,870   | 8,562                  | 9,418                  |
| Public safety                              |     | 4,649           | 4,676           | 5,056           | 4,736                | 4,786           | 4,786              | 4,839   | 5,068                  | 5,320                  |
| Housing                                    |     | 16,257          | 70,357          | 17,237          | 17,738               | 17,738          | 17,738             | 16,960  | 14,314                 | 15,031                 |
| Health                                     |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <i>Economic and environmental services</i> |     | 27,493          | 14,599          | 9,559           | 24,415               | 7,152           | 7,152              | 6,595   | 12,464                 | 24,087                 |
| Planning and development                   |     | 4,882           | 1,430           | 4,545           | 21,108               | 2,360           | 2,360              | 1,980   | 11,064                 | 21,076                 |
| Road transport                             |     | 22,341          | 13,036          | 4,870           | 3,132                | 4,608           | 4,608              | 4,440   | 1,214                  | 2,824                  |
| Environmental protection                   |     | 270             | 133             | 144             | 175                  | 183             | 183                | 175   | 186                    | 187                    |
| <i>Trading services</i>                    |     | 100,433         | 123,488         | 124,378         | 147,390              | 147,508         | 147,508            | 154,659   | 184,094                | 208,425                |
| Electricity                                |     | 51,893          | 67,501          | 80,089          | 93,826               | 91,602          | 91,602             | 94,706  | 116,128                | 134,762                |
| Water                                      |     | 24,054          | 19,494          | 19,398          | 24,906               | 25,738          | 25,738             | 29,925  | 28,272                 | 34,912                 |
| Waste water management                     |     | 16,893          | 27,711          | 14,896          | 17,662               | 19,172          | 19,172             | 17,944  | 26,162                 | 23,866                 |
| Waste management                           |     | 7,592           | 8,782           | 9,995           | 10,996               | 10,996          | 10,996             | 12,084  | 13,532                 | 14,884                 |
| <i>Other</i>                               | 4   | -               | 40              | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total Revenue - Standard</b>            | 2   | 217,388         | 289,849         | 247,457         | 282,844              | 266,606         | 266,606            | 285,114   | 323,531                | 370,890                |
| <b>Expenditure - Standard</b>              |     |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <i>Governance and administration</i>       |     | 42,441          | 52,526          | 62,184          | 63,018               | 62,933          | 62,933             | 71,824  | 76,294                 | 78,240                 |
| Executive and council                      |     | 19,971          | 22,836          | 34,259          | 28,336               | 28,363          | 28,363             | 32,414  | 34,878                 | 35,040                 |
| Budget and treasury office                 |     | 9,887           | 12,963          | 12,799          | 15,397               | 15,247          | 15,247             | 16,871  | 17,815                 | 18,920                 |
| Corporate services                         |     | 12,583          | 16,727          | 15,125          | 19,285               | 19,323          | 19,323             | 22,539  | 23,601                 | 24,280                 |
| <i>Community and public safety</i>         |     | 33,341          | 91,509          | 43,237          | 48,154               | 48,228          | 48,228             | 48,818  | 48,237                 | 50,832                 |
| Community and social services              |     | 4,719           | 4,970           | 5,597           | 6,875                | 6,848           | 6,848              | 7,160   | 7,599                  | 7,857                  |
| Sport and recreation                       |     | 7,594           | 9,905           | 11,839          | 13,431               | 13,489          | 13,489             | 14,703  | 15,564                 | 16,407                 |
| Public safety                              |     | 4,266           | 6,207           | 8,594           | 10,044               | 10,086          | 10,086             | 9,975   | 10,739                 | 11,515                 |
| Housing                                    |     | 16,741          | 70,427          | 17,207          | 17,804               | 17,804          | 17,804             | 16,980  | 14,335                 | 15,053                 |
| Health                                     |     | 21              | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <i>Economic and environmental services</i> |     | 20,267          | 25,140          | 31,766          | 34,041               | 33,898          | 33,898             | 36,435  | 39,467                 | 43,053                 |
| Planning and development                   |     | 3,092           | 3,310           | 5,316           | 5,556                | 5,497           | 5,497              | 5,729   | 5,949                  | 6,184                  |
| Road transport                             |     | 15,128          | 20,332          | 25,401          | 27,514               | 27,525          | 27,525             | 29,319  | 32,219                 | 35,577                 |
| Environmental protection                   |     | 2,048           | 1,498           | 1,049           | 971                  | 877             | 877                | 1,387   | 1,299                  | 1,292                  |
| <i>Trading services</i>                    |     | 68,971          | 82,906          | 101,378         | 113,669              | 116,532         | 116,532            | 119,503   | 131,045                | 144,896                |
| Electricity                                |     | 38,845          | 51,196          | 66,082          | 75,476               | 75,348          | 75,348             | 78,447  | 87,669                 | 98,344                 |
| Water                                      |     | 15,372          | 14,102          | 14,735          | 16,481               | 19,308          | 19,308             | 18,383  | 19,710                 | 21,144                 |
| Waste water management                     |     | 8,359           | 10,408          | 11,287          | 11,810               | 12,090          | 12,090             | 12,838  | 13,824                 | 15,157                 |
| Waste management                           |     | 6,395           | 7,200           | 9,275           | 9,902                | 9,786           | 9,786              | 9,835   | 9,842                  | 10,251                 |
| <i>Other</i>                               | 4   | 1,963           | 2,180           | 1,216           | 1,534                | 1,534           | 1,534              | 2,033   | 2,100                  | 2,113                  |
| <b>Total Expenditure - Standard</b>        | 3   | 166,983         | 254,261         | 239,781         | 260,416              | 263,126         | 263,126            | 278,614   | 297,143                | 319,134                |
| <b>Surplus/(Deficit) for the year</b>      |     | 50,405          | 35,588          | 7,676           | 22,428               | 3,481           | 3,481              | 6,500   | 26,388                 | 51,756                 |

## Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 14 functional areas (Health is not a Municipal function anymore).
2. Note the Total Revenue on this table includes capital revenues (Transfers recognized – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity, Water and Waste water and Waste management function.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources.

## Table 16 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

| Vote Description                              | Ref      | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|----------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
| R thousand                                    |          | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| <b>Revenue by Vote</b>                        | <b>1</b> |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Vote 1 - Executive & Council                  |          | 15,613          | 17,720          | 21,935          | 23,770               | 23,678          | 23,678             | 29,118  | 31,359                 | 34,420                 |
| Vote 2 - Finance & Admin                      |          | 45,954          | 51,848          | 61,385          | 56,796               | 56,140          | 56,140             | 60,298  | 67,055                 | 73,526                 |
| Vote 3 - Planning & Development               |          | 4,882           | 1,430           | 4,545           | 21,108               | 2,360           | 2,360              | 1,980   | 11,064                 | 21,076                 |
| Vote 4 - Community & Social Services          |          | 909             | 1,252           | 987             | 1,008                | 2,615           | 2,615              | 4,775   | 615                    | 663                    |
| Vote 5 - Housing                              |          | 16,257          | 70,357          | 17,237          | 17,738               | 17,738          | 17,738             | 16,960  | 14,314                 | 15,031                 |
| Vote 6 - Public Safety                        |          | 4,649           | 4,676           | 5,056           | 4,736                | 4,786           | 4,786              | 4,839   | 5,068                  | 5,320                  |
| Vote 7 - Sport & Recreation                   |          | 6,081           | 5,869           | 6,919           | 6,990                | 6,990           | 6,990              | 7,870   | 8,562                  | 9,418                  |
| Vote 8 - Environmental Protection             |          | 270             | 133             | 144             | 175                  | 183             | 183                | 175   | 186                    | 187                    |
| Vote 9 - Waste Management                     |          | 7,592           | 8,782           | 9,995           | 10,996               | 10,996          | 10,996             | 12,084  | 13,532                 | 14,884                 |
| Vote 10 - Waste Water Management (Sewerage)   |          | 16,893          | 27,711          | 14,896          | 17,662               | 19,172          | 19,172             | 17,944  | 26,162                 | 23,866                 |
| Vote 11 - Road Transport                      |          | 22,341          | 13,036          | 4,870           | 3,132                | 4,608           | 4,608              | 4,440   | 1,214                  | 2,824                  |
| Vote 12 - Water                               |          | 24,054          | 19,494          | 19,398          | 24,906               | 25,738          | 25,738             | 29,925  | 28,272                 | 34,912                 |
| Vote 13 - Electricity                         |          | 51,893          | 67,501          | 80,089          | 93,826               | 91,602          | 91,602             | 94,706  | 116,128                | 134,762                |
| Vote 14 - Tourism                             |          | -               | 40              | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote 15 - Health                              |          | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total Revenue by Vote</b>                  | <b>2</b> | <b>217,388</b>  | <b>289,849</b>  | <b>247,457</b>  | <b>282,843</b>       | <b>266,606</b>  | <b>266,606</b>     | <b>285,114</b>                                      | <b>323,531</b>         | <b>370,890</b>         |
| <b>Expenditure by Vote to be appropriated</b> | <b>1</b> |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Vote 1 - Executive & Council                  |          | 19,511          | 22,836          | 34,259          | 28,336               | 28,363          | 28,363             | 32,414  | 34,878                 | 35,040                 |
| Vote 2 - Finance & Admin                      |          | 22,930          | 29,690          | 27,925          | 34,682               | 34,571          | 34,571             | 39,410  | 41,417                 | 43,201                 |
| Vote 3 - Planning & Development               |          | 3,092           | 3,310           | 5,316           | 5,555                | 5,495           | 5,495              | 5,729   | 5,949                  | 6,184                  |
| Vote 4 - Community & Social Services          |          | 4,057           | 4,970           | 5,597           | 6,875                | 6,848           | 6,848              | 7,160   | 7,599                  | 7,857                  |
| Vote 5 - Housing                              |          | 16,741          | 70,427          | 17,207          | 17,804               | 17,804          | 17,804             | 16,980  | 14,335                 | 15,053                 |
| Vote 6 - Public Safety                        |          | 4,266           | 6,207           | 8,594           | 10,044               | 10,086          | 10,086             | 9,975   | 10,739                 | 11,515                 |
| Vote 7 - Sport & Recreation                   |          | 7,594           | 9,905           | 11,839          | 13,431               | 13,490          | 13,490             | 14,703  | 15,564                 | 16,407                 |
| Vote 8 - Environmental Protection             |          | 2,048           | 1,498           | 1,049           | 971                  | 877             | 877                | 1,387   | 1,299                  | 1,292                  |
| Vote 9 - Waste Management                     |          | 6,395           | 7,200           | 9,275           | 9,902                | 9,867           | 9,867              | 9,835   | 9,842                  | 10,251                 |
| Vote 10 - Waste Water Management (Sewerage)   |          | 8,359           | 10,408          | 11,287          | 11,810               | 12,009          | 12,009             | 12,838  | 13,824                 | 15,157                 |
| Vote 11 - Road Transport                      |          | 15,128          | 20,332          | 25,401          | 27,514               | 27,525          | 27,525             | 29,319  | 32,219                 | 35,577                 |
| Vote 12 - Water                               |          | 15,372          | 14,102          | 14,735          | 16,481               | 19,308          | 19,308             | 18,383  | 19,710                 | 21,144                 |
| Vote 13 - Electricity                         |          | 39,507          | 51,196          | 66,082          | 75,476               | 75,349          | 75,349             | 78,447  | 87,669                 | 98,344                 |
| Vote 14 - Tourism                             |          | 1,963           | 2,180           | 1,216           | 1,534                | 1,534           | 1,534              | 2,033   | 2,100                  | 2,113                  |
| Vote 15 - Health                              |          | 21              | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total Expenditure by Vote</b>              | <b>2</b> | <b>166,983</b>  | <b>254,261</b>  | <b>239,781</b>  | <b>260,415</b>       | <b>263,126</b>  | <b>263,126</b>     | <b>278,614</b>                                      | <b>297,143</b>         | <b>319,134</b>         |
| <b>Surplus/(Deficit) for the year</b>         | <b>2</b> | <b>50,405</b>   | <b>35,588</b>   | <b>7,676</b>    | <b>22,428</b>        | <b>3,481</b>    | <b>3,481</b>       | <b>6,500</b>  | <b>26,388</b>          | <b>51,756</b>          |

## Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organizational structure of Hessequa. This means it is possible to present the operating surplus or deficit of a vote.

**Table 17 Surplus/(Deficit) calculations for the trading services**

|  |                    |                   |                   |                   |
|--|--------------------|-------------------|-------------------|-------------------|
| Suplus/(Deficit) calculations for the trading services over the MTREF - (excl capital grants/incl. internal transfers) |                    |                   |                   |                   |
|  |                    |                   |                   |                   |
|  | <b>Adj. Budget</b> | <b>Budget</b>     | <b>Budget</b>     | <b>Budget</b>     |
| <b>ELECTRICITY</b>   | <b>2011/2012</b>   | <b>2012/2013</b>  | <b>2013/2014</b>  | <b>2014/2015</b>  |
| Total Revenue  | 95 518 977         | 100 585 553       | 113 548 395       | 126 843 147       |
| Operating Expenditure  | 82 089 840         | 84 365 780        | 94 353 506        | 105 916 730       |
| <b>Surplus/(Deficit) for the year</b>  | <b>13 429 137</b>  | <b>16 219 773</b> | <b>19 194 889</b> | <b>20 926 417</b> |
| <b>Percentage Surplus</b>  | <b>16.4</b>        | <b>19.2</b>       | <b>20.3</b>       | <b>19.8</b>       |
|  |                    |                   |                   |                   |
|  | <b>Adj. Budget</b> | <b>Budget</b>     | <b>Budget</b>     | <b>Budget</b>     |
| <b>WATER</b>   | <b>2011/2012</b>   | <b>2012/2013</b>  | <b>2013/2014</b>  | <b>2014/2015</b>  |
| Total Revenue  | 22 099 073         | 24 011 462        | 26 886 647        | 29 538 470        |
| Operating Expenditure  | 21 931 809         | 21 410 509        | 23 123 903        | 25 005 733        |
| <b>Surplus/(Deficit) for the year</b>  | <b>167 264</b>     | <b>2 600 953</b>  | <b>3 762 744</b>  | <b>4 532 737</b>  |
| <b>Percentage Surplus/(Deficit)</b>  | <b>0.8</b>         | <b>12.1</b>       | <b>16.3</b>       | <b>18.1</b>       |
|  |                    |                   |                   |                   |
|  | <b>Adj. Budget</b> | <b>Budget</b>     | <b>Budget</b>     | <b>Budget</b>     |
| <b>SEWERAGE</b>  | <b>2011/2012</b>   | <b>2012/2013</b>  | <b>2013/2014</b>  | <b>2014/2015</b>  |
| Total Revenue  | 14 714 765         | 17 195 168        | 19 254 759        | 21 179 137        |
| Operating Expenditure  | 15 079 130         | 16 535 450        | 17 966 309        | 19 809 811        |
| <b>Surplus/(Deficit) for the year</b>  | <b>-364 365</b>    | <b>659 718</b>    | <b>1 288 450</b>  | <b>1 369 326</b>  |
| <b>Percentage Deficit</b>  | <b>-2.4</b>        | <b>4.0</b>        | <b>7.2</b>        | <b>6.9</b>        |
|  |                    |                   |                   |                   |
|  | <b>Adj. Budget</b> | <b>Budget</b>     | <b>Budget</b>     | <b>Budget</b>     |
| <b>REFUSE</b>  | <b>2011/2012</b>   | <b>2012/2013</b>  | <b>2013/2014</b>  | <b>2014/2015</b>  |
| Total Revenue  | 11 094 541         | 12 200 259        | 13 658 531        | 15 022 252        |
| Operating Expenditure  | 11 105 450         | 11 185 547        | 11 294 189        | 11 811 862        |
| <b>Surplus/(Deficit) for the year</b>  | <b>-10 909</b>     | <b>1 014 712</b>  | <b>2 364 342</b>  | <b>3 210 390</b>  |
| <b>Percentage Surplus/(Deficit)</b>  | <b>-0.1</b>        | <b>9.1</b>        | <b>20.9</b>       | <b>27.2</b>       |

1. The above table is an analysis of the surplus or deficit for the Electricity, Water, Sewerage and Refuse services.
2. The electricity trading surplus has increases from 2011/12 (R13,429 million) to 2012/13 (R16,219 million) and the two outer years increases to R19,194 million for 2013/14 and R20,929 million for 2014/15.
3. The water trading surplus has increased from 2011/12 (R0,167 million) to 2012/13 (R2,601 million) and the two outer years increases to R3,763 million for 2013/14 and R4,532 million for 2014/15.
4. The Sewerage surplus has increased from 2011/12 (shortfall R0,364 million) to 2012/13 (R0,659 million) and the two outer years increases to R1,288 million for 2013/14 and R1,369 million for 2014/15.



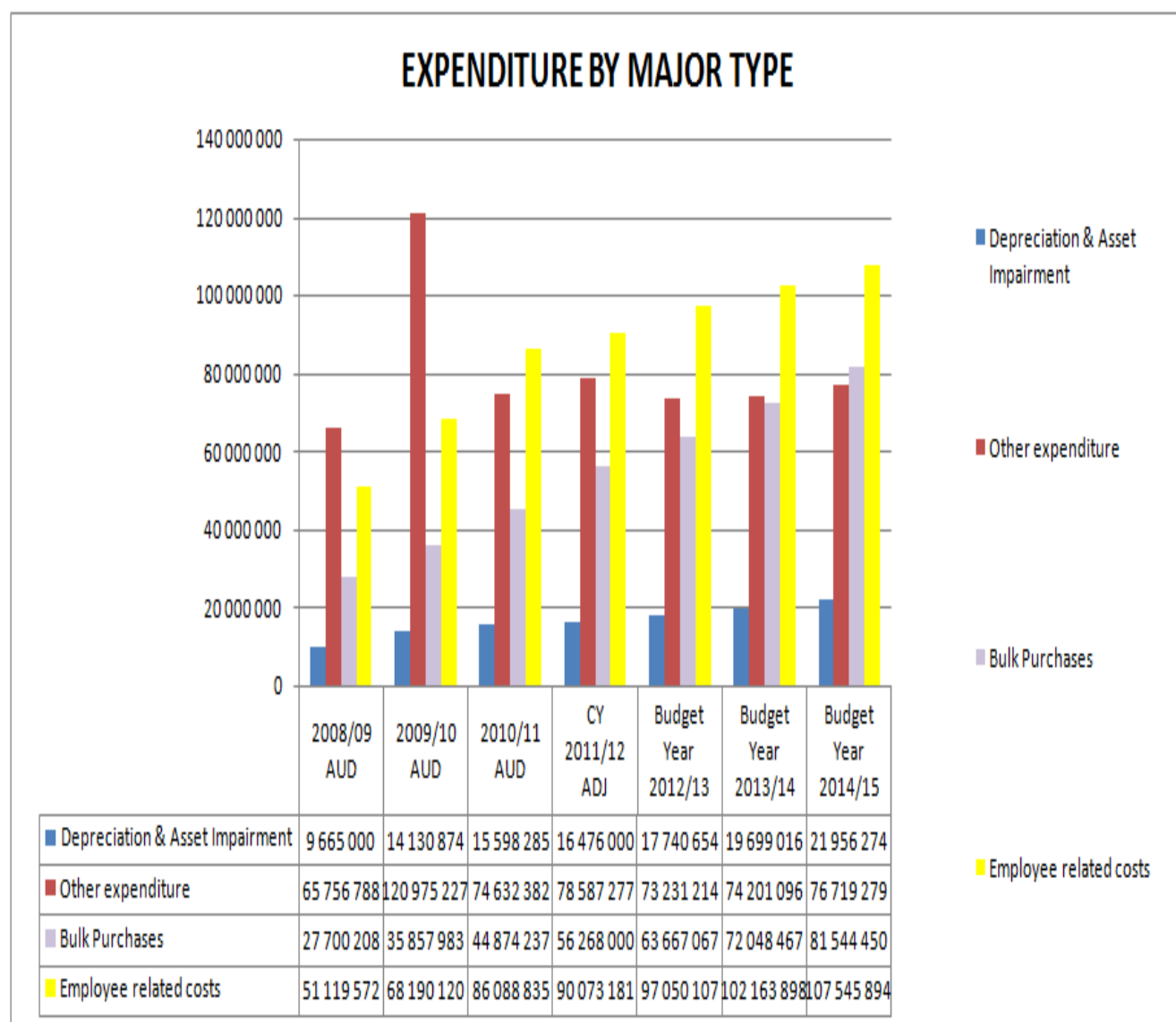
5. The Refuse surplus has increased from 2011/12 (shortfall R,010 million) to 2012/13 (R1,015 million) and the two outer years increases to R2,364 million for 2013/14 and R3,210 million for 2014/15.
6. All the surpluses of the above trading services are used to cross subsidize the municipal rates service.

**Table 18 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)**

| Description   | Ref  | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    |                   | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|   |      | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| R thousand  | 1    |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Revenue By Source   |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Property rates  | 2    | 31,812          | 40,125          | 42,631          | 47,564               | 47,564          | 47,564             | 47,564            | 51,862  | 58,111                 | 63,941                 |
| Property rates - penalties & collection charges               |      |                 |                 |                 | -                    | -               | -                  |                   |   |                        |                        |
| Service charges - electricity revenue                         | 2    | 44,539          | 60,604          | 73,194          | 85,139               | 85,139          | 85,139             | 85,139            | 93,771  | 105,376                | 117,043                |
| Service charges - water revenue                               | 2    | 13,673          | 13,834          | 16,707          | 18,275               | 18,275          | 18,275             | 18,275            | 22,598  | 25,337                 | 27,871                 |
| Service charges - sanitation revenue                          | 2    | 13,349          | 12,263          | 13,688          | 14,662               | 14,662          | 14,662             | 14,662            | 17,094  | 19,144                 | 21,059                 |
| Service charges - refuse revenue                              | 2    | 7,509           | 8,709           | 9,781           | 10,932               | 10,932          | 10,932             | 10,932            | 12,021  | 13,463                 | 14,810                 |
| Service charges - other                                       |      | 5,179           | 5,027           | 4,851           | 5,023                | 5,023           | 5,023              | 5,023             | 5,525   | 6,077                  | 6,685                  |
| Rental of facilities and equipment                            |      | 2,993           | 3,168           | 3,585           | 3,539                | 3,539           | 3,539              | 3,539             | 4,045   | 4,302                  | 4,678                  |
| Interest earned - external investments                        |      | 10,356          | 5,897           | 3,967           | 4,500                | 3,800           | 3,800              | 3,800             | 4,020   | 4,140                  | 4,260                  |
| Interest earned - outstanding debtors                         |      | 1,419           | 1,040           | 1,063           | 1,081                | 1,081           | 1,081              | 1,081             | 1,353   | 1,518                  | 1,669                  |
| Dividends received  |      |                 |                 |                 |                      | -               | -                  | -                 |   |                        |                        |
| Fines   |      | 2,612           | 2,569           | 2,633           | 2,446                | 2,446           | 2,446              | 2,446             | 2,500   | 2,686                  | 2,894                  |
| Licences and permits  |      | 212             | 205             | 294             | 273                  | 273             | 273                | 273               | 277   | 298                    | 309                    |
| Agency services   |      | 1,147           | 1,199           | 1,221           | 1,215                | 1,215           | 1,215              | 1,215             | 1,248   | 1,266                  | 1,284                  |
| Transfers recognised - operational                            |      | 43,424          | 99,895          | 48,481          | 48,761               | 53,778          | 53,778             | 53,778            | 50,798  | 46,189                 | 49,623                 |
| Other revenue   | 2    | 6,537           | 3,906           | 14,296          | 2,851                | 2,717           | 2,717              | 2,717             | 2,633   | 2,797                  | 2,897                  |
| Gains on disposal of PPE                                      |      | 579             | 625             | 3,223           | 20,150               | 1,150           | 1,150              | 1,150             | 1,000   | 10,000                 | 20,000                 |
| Total Revenue (excluding capital transfers and contributions) |      | 185,340         | 259,067         | 239,615         | 266,411              | 251,594         | 251,594            | 251,594           | 270,745   | 300,705                | 339,022                |
| Expenditure By Type   |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Employee related costs  | 2    | 51,120          | 68,190          | 86,089          | 90,073               | 90,073          | 90,074             | 90,074            | 97,050  | 102,164                | 107,546                |
| Remuneration of councillors                                   |      | 3,627           | 4,082           | 4,093           | 4,366                | 4,366           | 4,366              | 4,366             | 4,758   | 5,067                  | 5,396                  |
| Debt impairment   | 3    |                 | 2,106           | 3,393           | 2,635                | 2,635           | 2,635              | 2,635             | 3,089   | 3,275                  | 3,471                  |
| Depreciation & asset impairment                               | 2    | 9,665           | 14,131          | 15,598          | 16,476               | 16,476          | 16,476             | 16,476            | 17,741  | 19,699                 | 21,956                 |
| Finance charges   |      | 3,815           | 4,260           | 5,601           | 7,617                | 7,617           | 7,617              | 7,617             | 9,414   | 10,448                 | 11,656                 |
| Bulk purchases  | 2    | 27,700          | 35,858          | 44,874          | 56,268               | 56,268          | 56,268             | 56,268            | 63,667  | 72,048                 | 81,544                 |
| Other materials   | 8    |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Contracted services   |      | 696             | 799             | 3,172           | 3,389                | 3,389           | 3,389              | 3,389             | 4,210   | 4,374                  | 4,540                  |
| Transfers and grants  |      | 5,300           | 6,764           | 8,893           | 9,737                | 9,737           | 9,737              | 9,737             | 12,753  | 13,516                 | 14,316                 |
| Other expenditure   | 4, 5 | 65,060          | 118,070         | 68,067          | 69,854               | 72,563          | 72,563             | 72,563            | 65,932  | 66,552                 | 68,708                 |
| Loss on disposal of PPE                                       |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Total Expenditure   |      | 166,984         | 254,260         | 239,781         | 260,415              | 263,124         | 263,125            | 263,125           | 278,614   | 297,143                | 319,134                |
| Surplus/(Deficit)   |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Transfers recognised - capital                                |      | 18,356          | 4,807           | (166)           | 5,996                | (11,530)        | (11,531)           | (11,531)          | (7,868)   | 3,562                  | 19,888                 |
| Contributions recognised - capital                            | 6    | 28,844          | 30,782          | 7,842           | 16,432               | 15,012          | 15,012             | 15,012            | 14,369  | 22,826                 | 31,868                 |
| Contributed assets  |      | 3,205           | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Surplus/(Deficit) after capital transfers & contributions     |      | 50,405          | 35,589          | 7,676           | 22,428               | 3,482           | 3,481              | 3,481             | 6,500   | 26,388                 | 51,756                 |
| Taxation  |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Surplus/(Deficit) after taxation                              |      | 50,405          | 35,589          | 7,676           | 22,428               | 3,482           | 3,481              | 3,481             | 6,500   | 26,388                 | 51,756                 |
| Attributable to minorities                                    |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Surplus/(Deficit) attributable to municipality                |      | 50,405          | 35,589          | 7,676           | 22,428               | 3,482           | 3,481              | 3,481             | 6,500   | 26,388                 | 51,756                 |
| Share of surplus/ (deficit) of associate                      | 7    |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Surplus/(Deficit) for the year                                |      | 50,405          | 35,589          | 7,676           | 22,428               | 3,482           | 3,481              | 3,481             | 6,500   | 26,388                 | 51,756                 |

## Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. Total revenue is R270,745 million in 2012/13 and escalates to R300,705 by 2013/14 and R339,022 million by 2014/15. This represents a year-on-year increase of 11,1% for the 2013/14 financial year and 12,7% for the 2014/15 financial year. The increase for the 2011/12 year to year for 2012/13 represents a 7,6% increase.
2. Revenue to be generated from property rates increase with 9% from 2011/12 financial year (R47,564 million) to R51,862 million in 2012/13. This revenue base remains a significant funding source for Hessequa.
3. Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of Hessequa totaling R145,484 million for the 2012/13. For the 2012/13 financial year service charges amounts to 53,73% of the total revenue base.
  - Electricity – R85,139 million (2011/12) to R93,771 million (2012/13) = 10,1% increase
  - Water – R18,275 million (2011/12) to R22,598 million (2012/13) = 23,6% increase
  - Sanitation – R14,662 million (2011/12) to R17,094 million (2012/13) = 16,6% increase
  - Refuse – R10,932 million (2011/12) to R12,021 million (2012/13) = 10% increase
4. Transfers recognized – operating, includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are decreasing slowly over the MTREF.
5. The following graph illustrates the major expenditure items per type.



6. Employee related cost increases with 7,74% from adjusted budget 2011/12 to the 2012/13 budget. The outer two years increases with 5,3% in each year. The increase of 7,74% is due to the provision of a 5,0% salary increase and 25 new posts admitted to the budget.
7. Depreciation and Asset Impairment increase with 7,7% from adjusted budget 2011/12 to the 2012/13 budget. The outer two years increases with 11,0% (2013/2014) and 11,5% (2014/2015). The increases are due to the yearly capital programme.
8. Bulk purchases increase with 13,1% from adjusted budget 2011/12 to the 2012/13 budget. The outer two years increases with 13,2% in each year. The increase of 13,1% can be contributed to bulk purchase increase price or 13,5%.
9. Other Expenditure decrease with 6,8% from adjusted budget 2011/12 to the 2012/13 budget. The outer two years increases with 1,3% (2013/14) and 3,4% (2014/15). The decrease of 6,8% are due to less operational grants for 2012/13.

**Table 19 MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source**

| Vote Description                                  | Ref | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    |                   | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
| R thousand  | 1   | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| <b>Capital expenditure - Vote</b>                 |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Multi-year expenditure to be appropriated</b>  | 2   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Vote 1 - Executive & Council                      |     | 24              | 21              | 4               | 2                    | 2               | 2                  | 2                 | -   | -                      | -                      |
| Vote 2 - Finance & Admin                          |     | 321,132         | 2,231           | 10,452          | 3,085                | 3,305           | 3,305              | 3,305             | 3,079   | 1,183                  | 966                    |
| Vote 3 - Planning & Development                   |     | 149             | 15              | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 4 - Community & Social Services              |     | 524             | 603             | 293             | 518                  | 561             | 561                | 561               | 1,155   | 610                    | 584                    |
| Vote 5 - Housing                                  |     | -               | -               | 24              | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 6 - Public Safety                            |     | 31              | 416             | 1,226           | 528                  | 449             | 449                | 449               | 574   | 400                    | 210                    |
| Vote 7 - Sport & Recreation                       |     | 2,011           | 1,758           | 1,397           | 2,062                | 2,229           | 2,229              | 2,229             | 1,226   | 697                    | 576                    |
| Vote 8 - Environmental Protection                 |     | 38              | 14              | -               | -                    | -               | -                  | -                 | -   | -                      | 500                    |
| Vote 9 - Waste Management                         |     | 1,021           | -               | 590             | 1,500                | 1,430           | 1,430              | 1,430             | -   | 2,455                  | 2,653                  |
| Vote 10 - Waste Water Management (Sewerage)       |     | 9,035           | 16,629          | 3,896           | 8,678                | 10,055          | 10,055             | 10,055            | 5,745   | 10,547                 | 4,718                  |
| Vote 11 - Road Transport                          |     | 24,324          | 23,235          | 20,027          | 28,020               | 34,259          | 34,259             | 34,259            | 17,517  | 19,023                 | 18,325                 |
| Vote 12 - Water                                   |     | 6,454           | 5,659           | 4,032           | 7,987                | 5,995           | 5,995              | 5,995             | 11,710  | 6,770                  | 11,243                 |
| Vote 13 - Electricity                             |     | 4,883           | 10,959          | 9,784           | 15,742               | 13,482          | 13,482             | 13,482            | 7,909   | 18,389                 | 24,870                 |
| Vote 14 - Tourism                                 |     | 50              | 17              | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 15 - Health                                  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Capital multi-year expenditure sub-total</b>   | 7   | <b>369,675</b>  | <b>61,557</b>   | <b>51,724</b>   | <b>68,122</b>        | <b>71,767</b>   | <b>71,767</b>      | <b>71,767</b>     | <b>48,915</b>                                       | <b>60,074</b>          | <b>64,643</b>          |
| <b>Single-year expenditure to be appropriated</b> | 2   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Vote 1 - Executive & Council                      |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 2 - Finance & Admin                          |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 3 - Planning & Development                   |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 4 - Community & Social Services              |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 5 - Housing                                  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 6 - Public Safety                            |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 7 - Sport & Recreation                       |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 8 - Environmental Protection                 |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 9 - Waste Management                         |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 10 - Waste Water Management (Sewerage)       |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 11 - Road Transport                          |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 12 - Water                                   |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 13 - Electricity                             |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 14 - Tourism                                 |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 15 - Health                                  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Capital single-year expenditure sub-total</b>  |     | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>             | <b>-</b>        | <b>-</b>           | <b>-</b>          | <b>-</b>  | <b>-</b>               | <b>-</b>               |
| <b>Total Capital Expenditure - Vote</b>           |     | <b>369,675</b>  | <b>61,557</b>   | <b>51,724</b>   | <b>68,122</b>        | <b>71,767</b>   | <b>71,767</b>      | <b>71,767</b>     | <b>48,915</b>                                       | <b>60,074</b>          | <b>64,643</b>          |
| <b>Capital Expenditure - Standard</b>             |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Governance and administration</b>              |     | <b>321,156</b>  | <b>2,251</b>    | <b>10,456</b>   | <b>3,087</b>         | <b>3,306</b>    | <b>3,306</b>       | <b>3,307</b>      | <b>3,079</b>  | <b>1,183</b>           | <b>966</b>             |
| Executive and council                             |     | 24              | 21              | 4               | 2                    | 2               | 2                  | 2                 | -   | -                      | -                      |
| Budget and treasury office                        |     | 321,132         | 2,230           | 206             | 308                  | 235             | 235                | 235               | 335   | 282                    | 18                     |
| Corporate services                                |     | -               | -               | 10,246          | 2,777                | 3,070           | 3,070              | 3,070             | 2,744   | 902                    | 948                    |
| <b>Community and public safety</b>                |     | <b>2,566</b>    | <b>2,776</b>    | <b>2,940</b>    | <b>3,107</b>         | <b>3,240</b>    | <b>3,240</b>       | <b>3,239</b>      | <b>2,955</b>  | <b>1,707</b>           | <b>1,370</b>           |
| Community and social services                     |     | 524             | 603             | 293             | 518                  | 561             | 561                | 561               | 1,155   | 610                    | 584                    |
| Sport and recreation                              |     | 2,011           | 1,757           | 1,397           | 2,062                | 2,229           | 2,229              | 2,229             | 1,226   | 697                    | 576                    |
| Public safety                                     |     | 31              | 416             | 1,226           | 527                  | 449             | 449                | 449               | 574   | 400                    | 210                    |
| Housing   |     | -               | -               | 24              | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Health  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Economic and environmental services</b>        |     | <b>24,511</b>   | <b>23,264</b>   | <b>20,027</b>   | <b>28,020</b>        | <b>34,259</b>   | <b>34,259</b>      | <b>34,259</b>     | <b>17,517</b>                                       | <b>19,023</b>          | <b>18,825</b>          |
| Planning and development                          |     | 149             | 15              | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Road transport                                    |     | 24,324          | 23,235          | 20,027          | 28,020               | 34,259          | 34,259             | 34,259            | 17,517  | 19,023                 | 18,325                 |
| Environmental protection                          |     | 38              | 14              | -               | -                    | -               | -                  | -                 | -   | -                      | 500                    |
| <b>Trading services</b>                           |     | <b>21,393</b>   | <b>33,249</b>   | <b>18,302</b>   | <b>33,908</b>        | <b>30,962</b>   | <b>30,962</b>      | <b>30,962</b>     | <b>25,365</b>                                       | <b>38,160</b>          | <b>43,483</b>          |
| Electricity                                       |     | 4,883           | 10,961          | 9,784           | 15,743               | 13,482          | 13,482             | 13,482            | 7,909   | 18,389                 | 24,870                 |
| Water   |     | 6,454           | 5,659           | 4,032           | 7,987                | 5,995           | 5,995              | 5,995             | 11,710  | 6,770                  | 11,243                 |
| Waste water management                            |     | 9,035           | 16,629          | 3,896           | 8,678                | 10,055          | 10,055             | 10,055            | 5,745   | 10,547                 | 4,718                  |
| Waste management                                  |     | 1,021           | -               | 590             | 1,500                | 1,430           | 1,430              | 1,430             | -   | 2,455                  | 2,653                  |
| <b>Other</b>                                      |     | <b>50</b>       | <b>17</b>       | <b>-</b>        | <b>-</b>             | <b>-</b>        | <b>-</b>           | <b>-</b>          | <b>-</b>  | <b>-</b>               | <b>-</b>               |
| <b>Total Capital Expenditure - Standard</b>       | 3   | <b>369,675</b>  | <b>61,557</b>   | <b>51,724</b>   | <b>68,122</b>        | <b>71,767</b>   | <b>71,767</b>      | <b>71,767</b>     | <b>48,915</b>                                       | <b>60,074</b>          | <b>64,643</b>          |
| <b>Funded by:</b>                                 |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| National Government                               |     | 26,000          | 28,794          | 6,742           | 14,337               | 13,447          | 13,447             | 13,447            | 14,188  | 13,826                 | 18,868                 |
| Provincial Government                             |     | 2,762           | 1,713           | 110             | 2,095                | 1,565           | 1,565              | 1,565             | 181   | -                      | -                      |
| District Municipality                             |     | 81              | 275             | 990             | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Other transfers and grants                        |     | 3,205           | -               | -               | -                    | -               | -                  | -                 | -   | 9,000                  | 13,000                 |
| <b>Transfers recognised - capital</b>             | 4   | <b>32,049</b>   | <b>30,782</b>   | <b>7,842</b>    | <b>16,432</b>        | <b>15,012</b>   | <b>15,012</b>      | <b>15,012</b>     | <b>14,369</b>                                       | <b>22,826</b>          | <b>31,868</b>          |
| <b>Public contributions &amp; donations</b>       | 5   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Borrowing   | 6   | 9,478           | 14,808          | 22,023          | 25,000               | 25,000          | 25,000             | 25,000            | 16,250  | 16,150                 | 17,250                 |
| Internally generated funds                        |     | 328,148         | 15,967          | 21,859          | 26,690               | 31,755          | 31,755             | 31,755            | 18,296  | 21,098                 | 15,526                 |
| <b>Total Capital Funding</b>                      | 7   | <b>369,675</b>  | <b>61,557</b>   | <b>51,724</b>   | <b>68,122</b>        | <b>71,767</b>   | <b>71,767</b>      | <b>71,767</b>     | <b>48,915</b>                                       | <b>60,074</b>          | <b>64,643</b>          |

## **Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source**

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.
3. The total 2011/12 Capital Budget of R71,767 million decreases dramatically for 2012/13 to R48,915 million. The decrease is because of a shortage of own capital financing within Hessequa. In the outer years the Capital Budget increases to R60,074 million (22,8%) in 2013/14 and R64,643 million in 2014/15 (7,6%).
4. The highest allocation for 2012/13 are as follows:
  - Road Transport – R17,517 million
  - Sewerage – R5,745 million
  - Electricity – R7,909 million
  - Water – R11,710 million
5. The capital programme is funded from capital and provincial grants and transfers, public contributions and donations, borrowing and internally generated funds. The Capital programme for 2012/13 is funded as follows:
  - Internally generated funds (CRR) – R18,296 million
  - External Loans – R16,250 million
  - Grants and Transfers – R14,369 million



**Table 20 MBRR Table A6 - Budgeted Financial Position**

| Table 10: Medium Term Revenue & Expenditure Framework |     |                 |                 |                 |                      |                 |                    |                   | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
| Description   | Ref | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    |                   | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| R thousand  |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome |   |                        |                        |
| ASSETS  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Current assets  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Cash  |     | 4               | 6               | 2,102           | 1,800                | 1,800           | 1,800              | 1,800             | 1,122   | 4,381                  | 6,095                  |
| Call investment deposits                              | 1   | 105,540         | 62,440          | 70,021          | 41,718               | 26,106          | 26,106             | 26,106            | 14,302  | 11,823                 | 34,635                 |
| Consumer debtors                                      | 1   | 14,006          | 28,573          | 25,603          | 26,600               | 26,600          | 26,600             | 26,600            | 18,755  | 15,236                 | 11,765                 |
| Other debtors   |     | 4,022           | 3,764           | 2,982           | 382                  | 382             | 382                | 382               | 382   | 382                    | 382                    |
| Current portion of long-term receivables              |     | 179             | 2               | 2               | 2                    | 2               | 2                  | 2                 | 2   | 2                      | 2                      |
| Inventory   | 2   | 756             | 896             | 818             | 835                  | 835             | 835                | 835               | 840   | 845                    | 853                    |
| Total current assets                                  |     | 124,507         | 95,680          | 101,528         | 71,337               | 55,724          | 55,724             | 55,724            | 35,402  | 32,669                 | 53,732                 |
| Non current assets                                    |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Long-term receivables                                 |     | 29              | 28              | 26              | 31                   | 24              | 24                 | 24                | 23  | 21                     | 19                     |
| Investments   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Investment property                                   |     | 119,233         | 43,093          | 43,450          | 43,450               | 43,450          | 43,450             | 43,450            | 43,450  | 43,450                 | 43,450                 |
| Investment in Associate                               |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Property, plant and equipment                         | 3   | 353,715         | 470,515         | 506,235         | 564,206              | 560,561         | 560,561            | 560,561           | 589,974   | 628,320                | 668,689                |
| Agricultural  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Biological  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Intangible  |     |                 |                 |                 |                      | 366             | 366                | 366               | 366   | 366                    | 366                    |
| Other non-current assets                              |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Total non current assets                              |     | 472,977         | 513,636         | 549,712         | 607,687              | 604,401         | 604,401            | 604,401           | 633,812   | 672,157                | 712,525                |
| TOTAL ASSETS  |     | 597,483         | 609,316         | 651,239         | 679,024              | 660,125         | 660,125            | 660,125           | 669,214   | 704,825                | 766,257                |
| LIABILITIES   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Current liabilities                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Bank overdraft  | 1   | 11,132          | 1,549           |                 |                      |                 |                    |                   |   |                        |                        |
| Borrowing   | 4   | 4,454           | 5,804           | 8,248           | 8,248                | 8,248           | 8,248              | 8,248             | 10,087  | 9,775                  | 9,775                  |
| Consumer deposits                                     |     | 3,054           | 3,120           | 3,253           | 3,309                | 3,309           | 3,310              | 3,308             | 3,363   | 3,418                  | 3,473                  |
| Trade and other payables                              | 4   | 55,859          | 33,394          | 41,314          | 27,259               | 27,259          | 27,259             | 27,259            | 21,762  | 24,754                 | 26,553                 |
| Provisions  |     | 4,170           | 6,311           | 7,793           | 8,864                | 8,864           | 8,864              | 8,865             | 9,987   | 11,374                 | 13,004                 |
| Total current liabilities                             |     | 78,669          | 50,177          | 60,607          | 47,680               | 47,680          | 47,681             | 47,680            | 45,199  | 49,321                 | 52,806                 |
| Non current liabilities                               |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Borrowing   |     | 33,117          | 42,117          | 56,356          | 73,108               | 73,108          | 73,108             | 73,108            | 77,432  | 82,800                 | 90,275                 |
| Provisions  |     | 24,480          | 26,203          | 35,783          | 37,364               | 37,364          | 37,364             | 37,364            | 38,108  | 39,116                 | 40,413                 |
| Total non current liabilities                         |     | 57,597          | 68,321          | 92,139          | 110,472              | 110,472         | 110,472            | 110,472           | 115,540   | 121,917                | 130,688                |
| TOTAL LIABILITIES                                     |     | 136,266         | 118,498         | 152,746         | 158,152              | 158,152         | 158,153            | 158,152           | 160,740   | 171,238                | 183,494                |
| NET ASSETS  | 5   | 461,217         | 490,818         | 498,493         | 520,872              | 501,973         | 501,973            | 501,973           | 508,474   | 533,587                | 582,762                |
| COMMUNITY WEALTH/EQUITY                               |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Accumulated Surplus/(Deficit)                         |     | 271,340         | 457,890         | 455,558         | 494,627              | 480,793         | 480,793            | 480,793           | 495,590   | 530,451                | 576,152                |
| Reserves  | 4   | 189,877         | 32,928          | 42,935          | 26,245               | 21,180          | 21,180             | 21,180            | 12,884  | 3,136                  | 6,610                  |
| Minorities' interests                                 |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| TOTAL COMMUNITY WEALTH/EQUITY                         | 5   | 461,217         | 490,818         | 498,493         | 520,872              | 501,973         | 501,973            | 501,973           | 508,474   | 533,587                | 582,762                |

### Explanatory notes to Table A6 - Budgeted Financial Position

- Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
- SA 3 of Budget returns is by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:
  - Call investments deposits;
  - Consumer debtors;
  - Property, plant and equipment;
  - Trade and other payables;
  - Provisions non current;
  - Changes in net assets; and
  - Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

**Table 21 MBRR Table A7 - Budgeted Cash Flow Statement**

| Description                                       | Ref | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    |                   | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|   |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| R thousand  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| CASH FLOW FROM OPERATING ACTIVITIES               |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Receipts  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Ratepayers and other                              |     | 133,347         | 139,194         | 175,482         | 188,370              | 189,853         | 189,853            | 189,853           | 214,927   | 253,826                | 282,536                |
| Government - operating                            | 1   | 43,423          | 97,743          | 50,165          | 49,005               | 53,778          | 53,778             | 53,778            | 50,798  | 46,189                 | 49,623                 |
| Government - capital                              | 1   | 28,844          | 30,782          | 7,842           | 16,432               | 15,012          | 15,012             | 15,012            | 14,340  | 13,826                 | 18,868                 |
| Interest  |     | 11,775          | 6,938           | 5,031           | 5,040                | 4,331           | 4,331              | 4,331             | 4,020   | 4,140                  | 4,260                  |
| Dividends   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Payments  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Suppliers and employees                           |     | (151,826)       | (255,325)       | (208,123)       | (231,315)            | (236,396)       | (236,396)          | (236,396)         | (248,346)   | (265,754)              | (285,743)              |
| Finance charges                                   |     | (3,815)         | (4,260)         | (5,601)         | (7,617)              | (7,617)         | (7,617)            | (7,617)           | (9,414)   | (10,448)               | (11,656)               |
| Transfers and Grants                              | 1   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| NET CASH FROM/(USED) OPERATING ACTIVITIES         |     | 61,748          | 15,072          | 24,796          | 19,914               | 18,961          | 18,961             | 18,961            | 26,326  | 41,779                 | 57,888                 |
| CASH FLOWS FROM INVESTING ACTIVITIES              |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Receipts  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Proceeds on disposal of PPE                       |     | 579             | 712             | 3,225           | 20,150               | 1,150           | 1,150              | 1,150             | 1,000   | 10,000                 | 20,000                 |
| Decrease (Increase) in non-current debtors        |     | 242             | 198             | (8)             | 2                    | 2               | 2                  | 2                 | 2   | 2                      | 2                      |
| Decrease (increase) other non-current receivables |     |                 |                 |                 |                      | (25)            | (25)               | (25)              |   |                        |                        |
| Decrease (increase) in non-current investments    |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Payments  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Capital assets                                    |     | (52,050)        | (61,577)        | (43,144)        | (68,122)             | (71,167)        | (71,167)           | (71,167)          | (47,154)  | (58,376)               | (62,326)               |
| NET CASH FROM/(USED) INVESTING ACTIVITIES         |     | (51,229)        | (60,666)        | (39,928)        | (47,970)             | (70,040)        | (70,040)           | (70,040)          | (46,152)  | (48,374)               | (42,324)               |
| CASH FLOWS FROM FINANCING ACTIVITIES              |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Receipts  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Short term loans                                  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Borrowing long term/refinancing                   |     | 3,869           | 12,012          | 26,224          | 25,000               | 25,000          | 25,000             | 25,000            | 16,250  | 16,150                 | 17,250                 |
| Increase (decrease) in consumer deposits          |     | 135             | 66              | 134             | 56                   | 56              | 56                 | 56                | 55  | 55                     | 55                     |
| Payments  |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Repayment of borrowing                            |     |                 |                 |                 | (6,450)              | (8,741)         | (8,741)            | (8,741)           | (10,087)  | (10,444)               | (9,775)                |
| NET CASH FROM/(USED) FINANCING ACTIVITIES         |     | 4,003           | 12,078          | 26,358          | 18,606               | 16,315          | 16,315             | 16,315            | 6,218   | 5,761                  | 7,530                  |
| NET INCREASE/ (DECREASE) IN CASH HELD             |     | 14,522          | (33,516)        | 11,226          | (9,450)              | (34,764)        | (34,764)           | (34,764)          | (13,609)  | (834)                  | 23,094                 |
| Cash/cash equivalents at the year begin:          | 2   | 79,891          | 94,413          | 60,897          | 72,123               | 62,674          | 62,674             | 62,674            | 27,910  | 14,302                 | 13,468                 |
| Cash/cash equivalents at the year end:            | 2   | 94,413          | 60,897          | 72,124          | 62,674               | 27,910          | 27,910             | 27,910            | 14,302  | 13,468                 | 36,562                 |

### Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. It can be seen that the cash levels of Hessequa for the approved budget 2011/12 constituted in a net decrease in cash held of R9,450 million and a net cash equivalent totaled of R27,91 million by 30 June 2012.
4. The draft budget for 2012/13 reflects a net decrease in cash held of R13,6 million, with a net cash equivalent totaled of R14,302 million by 30 June 2013.
5. The 2012/13 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.

**Table 22 MBRR Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation**

| Description                                       | Ref | 2008/9           | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    |                   | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----|------------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|   |     | Audited Outcome  | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| R thousand  |     |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Cash and investments available</b>             |     |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Cash/cash equivalents at the year end             | 1   | 94,413           | 60,897          | 72,124          | 62,674               | 27,910          | 27,910             | 27,910            | 14,302  | 13,468                 | 36,562                 |
| Other current investments > 90 days               |     | (0)              | (0)             | (1)             | (19,156)             | (5)             | (4)                | (4)               | 1,122   | 2,737                  | 4,168                  |
| Non current assets - Investments                  | 1   | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Cash and investments available:</b>            |     | <b>94,413</b>    | <b>60,897</b>   | <b>72,123</b>   | <b>43,518</b>        | <b>27,906</b>   | <b>27,906</b>      | <b>27,906</b>     | <b>15,424</b>                                       | <b>16,204</b>          | <b>40,730</b>          |
| <b>Application of cash and investments</b>        |     |                  |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Unspent conditional transfers                     |     | 27,196           | 9,921           | 6,925           | 3,000                | 3,000           | 3,000              | 3,000             | 200   | 200                    | 200                    |
| Unspent borrowing                                 |     | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Statutory requirements                            | 2   | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Other working capital requirements                | 3   | 10,281           | (6,038)         | 7,093           | (2,106)              | (2,325)         | (2,325)            | (2,325)           | 2,402   | 8,040                  | 13,388                 |
| Other provisions                                  |     | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Long term investments committed                   | 4   | -                | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Reserves to be backed by cash/investments         | 5   | 189,877          | 32,928          | 42,935          | 26,245               | 21,180          | 21,180             | 21,180            | 14,234  | 3,136                  | 6,610                  |
| <b>Total Application of cash and investments:</b> |     | <b>227,354</b>   | <b>36,811</b>   | <b>56,954</b>   | <b>27,139</b>        | <b>21,855</b>   | <b>21,855</b>      | <b>21,855</b>     | <b>16,836</b>                                       | <b>11,376</b>          | <b>20,198</b>          |
| <b>Surplus(shortfall)</b>                         |     | <b>(132,941)</b> | <b>24,086</b>   | <b>15,169</b>   | <b>16,379</b>        | <b>6,050</b>    | <b>6,051</b>       | <b>6,051</b>      | <b>(1,413)</b>                                      | <b>4,828</b>           | <b>20,531</b>          |

### Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. From the table it can be seen that for the period 2009/10 to 2011/12 the surplus deteriorated from R24,086 million(2009/10) to R6,050 million(2011/12).
5. This draft budget for 2012/13 shows a shortfall of R1,413 million with a improvement in the outer years to a surplus of R4,828 million in 2013/14 and R20,531 million in 2014/15.

**Table 23 MBRR Table A9 - Asset Management**

| Description                                    | Ref  | 2008/9          | 2009/10         | 2010/11         | Current Year 2011/12 |                 |                    | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  |      | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
|  |      | R thousand      |                 |                 |                      |                 |                    |   |                        |                        |
| CAPITAL EXPENDITURE                            |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Total New Assets                               | 1    | 347,927         | 39,514          | 34,335          | 27,029               | 29,269          | 29,269             | 31,937  | 38,167                 | 47,441                 |
| Infrastructure - Road transport                |      | 6,200           | 3,963           | 12,537          | 5,916                | 7,212           | 7,212              | 8,400   | 5,716                  | 7,000                  |
| Infrastructure - Electricity                   |      | 2,643           | 9,189           | 2,006           | 7,690                | 5,366           | 5,366              | 2,000   | 12,025                 | 19,400                 |
| Infrastructure - Water                         |      | 5,610           | 5,153           | 3,891           | 6,681                | 4,727           | 4,727              | 8,318   | 3,900                  | 8,813                  |
| Infrastructure - Sanitation                    |      | 8,034           | 15,494          | 2,591           | 2,130                | 6,640           | 6,640              | 4,214   | 5,130                  | 3,230                  |
| Infrastructure - Other                         |      | 70              | -               | -               | -                    | 75              | 75                 | -   | 150                    | 150                    |
| Infrastructure                                 |      | 22,556          | 33,800          | 21,025          | 22,417               | 24,020          | 24,020             | 22,933  | 26,921                 | 38,593                 |
| Community                                      |      | 2,101           | 371             | -               | 1,065                | 1,392           | 1,392              | 1,724   | 724                    | 1,230                  |
| Heritage assets                                |      | -               | -               | 8,326           | -                    | -               | -                  | -   | -                      | -                      |
| Investment properties                          |      | -               | -               | -               | -                    | 350             | 350                | 1,050   | -                      | -                      |
| Other assets                                   | 6    | 322,870         | 5,343           | 4,984           | 3,548                | 3,508           | 3,508              | 6,230   | 10,522                 | 7,619                  |
| Agricultural Assets                            |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Biological assets                              |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Intangibles                                    |      | 400             | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Total Renewal of Existing Assets               | 2    | 21,748          | 22,044          | 17,389          | 41,092               | 42,497          | 42,497             | 16,978  | 21,907                 | 17,202                 |
| Infrastructure - Road transport                |      | 16,875          | 16,887          | 3,288           | 19,936               | 25,006          | 25,006             | 6,866   | 8,240                  | 8,220                  |
| Infrastructure - Electricity                   |      | 1,440           | 1,447           | 7,183           | 7,600                | 7,600           | 7,600              | 5,650   | 5,460                  | 4,720                  |
| Infrastructure - Water                         |      | 414             | 473             | 2,100           | 1,106                | 1,097           | 1,097              | 2,407   | 2,570                  | 2,367                  |
| Infrastructure - Sanitation                    |      | 567             | 432             | 1,687           | 5,483                | 2,483           | 2,483              | 795   | 4,820                  | 790                    |
| Infrastructure - Other                         |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Infrastructure                                 |      | 19,297          | 19,238          | 14,258          | 34,125               | 36,186          | 36,186             | 15,718  | 21,090                 | 16,097                 |
| Community                                      |      | 288             | 401             | 202             | 2,826                | 2,562           | 2,562              | 580   | 255                    | 545                    |
| Heritage assets                                |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Investment properties                          |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Other assets                                   | 6    | 2,164           | 2,404           | 2,929           | 4,141                | 3,749           | 3,749              | 680   | 562                    | 560                    |
| Agricultural Assets                            |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Biological assets                              |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Intangibles                                    |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Total Capital Expenditure                      | 4    |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Infrastructure - Road transport                |      | 23,075          | 20,850          | 15,825          | 25,852               | 32,218          | 32,218             | 15,266  | 13,956                 | 15,220                 |
| Infrastructure - Electricity                   |      | 4,083           | 10,636          | 9,189           | 15,290               | 12,966          | 12,966             | 7,650   | 17,485                 | 24,120                 |
| Infrastructure - Water                         |      | 6,024           | 5,626           | 5,991           | 7,787                | 5,824           | 5,824              | 10,725  | 6,470                  | 11,180                 |
| Infrastructure - Sanitation                    |      | 8,601           | 15,926          | 4,278           | 7,613                | 9,123           | 9,123              | 5,009   | 9,950                  | 4,020                  |
| Infrastructure - Other                         |      | 70              | -               | -               | -                    | 75              | 75                 | -   | 150                    | 150                    |
| Infrastructure                                 |      | 41,853          | 53,038          | 35,283          | 56,542               | 60,205          | 60,205             | 38,651  | 48,011                 | 54,690                 |
| Community                                      |      | 2,389           | 772             | 202             | 3,891                | 3,954           | 3,954              | 2,304   | 979                    | 1,775                  |
| Heritage assets                                |      | -               | -               | 8,326           | -                    | -               | -                  | -   | -                      | -                      |
| Investment properties                          |      | -               | -               | -               | -                    | 350             | 350                | 1,050   | -                      | -                      |
| Other assets                                   |      | 325,034         | 7,747           | 7,913           | 7,689                | 7,257           | 7,257              | 6,910   | 11,084                 | 8,179                  |
| Agricultural Assets                            |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Biological assets                              |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Intangibles                                    |      | 400             | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| TOTAL CAPITAL EXPENDITURE - Asset class        | 2    | 369,676         | 61,557          | 51,724          | 68,122               | 71,766          | 71,766             | 48,915  | 60,074                 | 64,643                 |
| ASSET REGISTER SUMMARY - PPE (WDV)             |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Infrastructure - Road transport                | 5    | 353,714         | 470,515         | 506,235         | 564,206              | 560,561         | 560,561            | 589,974   | 628,320                | 668,689                |
| Infrastructure - Electricity                   |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Infrastructure - Water                         |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Infrastructure - Sanitation                    |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Infrastructure - Other                         |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Infrastructure                                 |      | 353,714         | 470,515         | 506,235         | 564,206              | 560,561         | 560,561            | 589,974   | 628,320                | 668,689                |
| Community                                      |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Heritage assets                                |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Investment properties                          |      | 119,233         | 43,093          | 43,450          | 43,450               | 43,450          | 43,450             | 43,450  | 43,450                 | 43,450                 |
| Other assets                                   |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Agricultural Assets                            |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Biological assets                              |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Intangibles                                    |      | -               | -               | -               | -                    | 366             | 366                | 366   | 366                    | 366                    |
| TOTAL ASSET REGISTER SUMMARY - PPE (WDV)       | 5    | 472,947         | 513,608         | 549,685         | 607,656              | 604,377         | 604,377            | 633,790   | 672,136                | 712,505                |
| EXPENDITURE OTHER ITEMS                        |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Depreciation & asset impairment                |      | 9,665           | 14,131          | 15,598          | 16,476               | 16,476          | 16,476             | 17,741  | 19,699                 | 21,956                 |
| Repairs and Maintenance by Asset Class         | 3    | 11,125          | 11,372          | 12,476          | 12,908               | 12,662          | 12,662             | 12,510  | 13,600                 | 14,618                 |
| Infrastructure - Road transport                |      | 2,456           | 2,329           | 2,781           | 2,030                | 2,030           | 2,030              | 2,306   | 2,141                  | 2,252                  |
| Infrastructure - Electricity                   |      | 1,716           | 1,717           | 1,439           | 1,389                | 1,432           | 1,432              | 1,468   | 1,570                  | 1,670                  |
| Infrastructure - Water                         |      | 414             | 473             | 634             | 367                  | 367             | 367                | 448   | 482                    | 517                    |
| Infrastructure - Sanitation                    |      | 567             | 432             | 485             | 295                  | 295             | 295                | 328   | 349                    | 367                    |
| Infrastructure - Other                         |      | 166             | 187             | 222             | 218                  | 218             | 218                | 179   | 270                    | 288                    |
| Infrastructure                                 |      | 5,320           | 5,138           | 5,562           | 4,298                | 4,341           | 4,341              | 4,730   | 4,811                  | 5,094                  |
| Community                                      |      | 288             | 454             | 819             | 1,003                | 743             | 743                | 953   | 908                    | 954                    |
| Heritage assets                                |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Investment properties                          |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Other assets                                   | 6, 7 | 5,517           | 5,780           | 6,095           | 7,607                | 7,578           | 7,578              | 6,827   | 7,881                  | 8,569                  |
| TOTAL EXPENDITURE OTHER ITEMS                  |      | 20,790          | 25,503          | 28,074          | 29,383               | 29,138          | 29,138             | 30,250  | 33,299                 | 36,574                 |
| Renewal of Existing Assets as % of total capex |      | 5.9%            | 35.8%           | 33.6%           | 60.3%                | 59.2%           | 59.2%              | 34.7%   | 36.5%                  | 26.6%                  |
| Renewal of Existing Assets as % of deprecn"    |      | 225.0%          | 156.0%          | 111.5%          | 249.4%               | 257.9%          | 257.9%             | 95.7%   | 111.2%                 | 78.3%                  |
| R&M as a % of PPE                              |      | 3.1%            | 2.4%            | 2.5%            | 2.3%                 | 2.3%            | 2.3%               | 2.1%  | 2.2%                   | 2.2%                   |
| Renewal and R&M as a % of PPE                  |      | 7.0%            | 7.0%            | 5.0%            | 9.0%                 | 9.0%            | 9.0%               | 5.0%  | 5.0%                   | 4.0%                   |

### **Explanatory notes to Table A9 - Asset Management**

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The allocation for new assets and renewal of existing assets for 2011/12 and 2012/13 are as follows:
  - New Assets – 2011/12 = 40,8%      2012/13 = 65,29%
  - Renewal of existing assets – 2011/12 = 59,2%      2012/13 = 34,71%

Hessequa on average meets these requirements.

In the above table Hessequa does not meet the Repairs and Maintenance at 8% of PPE. Hessequa does not charge out any transport or labour to repairs and maintenance, and therefore the percentage will be much lower.



**Table 24 MBRR Table A10 - Basic Service Delivery Measurement**

| Description  | Ref | 2008/9  | 2009/10 | 2010/11 | Current Year 2011/12 |                 |                    | 2012/13 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----|---------|---------|---------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  |     | Outcome | Outcome | Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2012/13                                 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
| <b>Household service targets</b>   | 1   |         |         |         |                      |                 |                    |   |                        |                        |
| <b>Water:</b>  |     |         |         |         |                      |                 |                    |   |                        |                        |
| Piped water inside dwelling  |     | 12,500  | 12,696  | 12,696  | 12,696               | 12,696          | 12,696             | 12,950  | 12,950                 | 12,950                 |
| Piped water inside yard (but not in dwelling)                              |     |         |         |         |                      |                 |                    |   |                        |                        |
| Using public tap (at least min.service level)                              | 2   |         |         |         |                      |                 |                    |   |                        |                        |
| Other water supply (at least min.service level)                            | 4   |         |         |         |                      |                 |                    |   |                        |                        |
| <b>Minimum Service Level and Above sub-total</b>                           |     | 12,500  | 12,696  | 12,696  | 12,696               | 12,696          | 12,696             | 12,950  | 12,950                 | 12,950                 |
| Using public tap (< min.service level)                                     | 3   |         |         |         |                      |                 |                    |   |                        |                        |
| Other water supply (< min.service level)                                   | 4   |         |         |         |                      |                 |                    |   |                        |                        |
| No water supply  |     |         |         |         |                      |                 |                    |   |                        |                        |
| <b>Below Minimum Service Level sub-total</b>                               |     | -       | -       | -       | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total number of households</b>  | 5   | 12,500  | 12,696  | 12,696  | 12,696               | 12,696          | 12,696             | 12,950  | 12,950                 | 12,950                 |
| <b>Sanitation/sewerage:</b>  |     |         |         |         |                      |                 |                    |   |                        |                        |
| Flush toilet (connected to sewerage)                                       |     | 10,047  | 10,200  | 10,350  | 10,514               | 10,514          | 10,514             | 10,724  | 10,724                 | 10,724                 |
| Flush toilet (with septic tank)  |     | 2,016   | 2,047   | 2,083   | 2,099                | 2,099           | 2,099              | 2,141   | 2,141                  | 2,141                  |
| Chemical toilet  |     |         |         |         |                      |                 |                    |   |                        |                        |
| Pit toilet (ventilated)  |     |         |         |         |                      |                 |                    |   |                        |                        |
| Other toilet provisions (> min.service level)                              |     |         |         |         |                      |                 |                    |   |                        |                        |
| <b>Minimum Service Level and Above sub-total</b>                           |     | 12,063  | 12,247  | 12,433  | 12,613               | 12,613          | 12,613             | 12,865  | 12,865                 | 12,865                 |
| Bucket toilet  |     |         |         |         |                      |                 |                    |   |                        |                        |
| Other toilet provisions (< min.service level)                              |     |         |         |         |                      |                 |                    |   |                        |                        |
| No toilet provisions   |     |         |         |         |                      |                 |                    |   |                        |                        |
| <b>Below Minimum Service Level sub-total</b>                               |     | -       | -       | -       | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total number of households</b>  | 5   | 12,063  | 12,247  | 12,433  | 12,613               | 12,613          | 12,613             | 12,865  | 12,865                 | 12,865                 |
| <b>Energy:</b>   |     |         |         |         |                      |                 |                    |   |                        |                        |
| Electricity (at least min.service level)                                   |     | 4,700   | 4,881   | 4,996   | 5,031                | 5,031           | 5,031              | 5,157   | 5,157                  | 5,157                  |
| Electricity - prepaid (min.service level)                                  |     | 7,000   | 7,605   | 7,801   | 7,838                | 7,838           | 7,838              | 8,034   | 8,034                  | 8,034                  |
| <b>Minimum Service Level and Above sub-total</b>                           |     | 11,700  | 12,486  | 12,797  | 12,869               | 12,869          | 12,869             | 13,191  | 13,191                 | 13,191                 |
| Electricity (< min.service level)  |     |         |         |         |                      |                 |                    |   |                        |                        |
| Electricity - prepaid (< min. service level)                               |     |         |         |         |                      |                 |                    |   |                        |                        |
| Other energy sources   |     |         |         |         |                      |                 |                    |   |                        |                        |
| <b>Below Minimum Service Level sub-total</b>                               |     | -       | -       | -       | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total number of households</b>  | 5   | 11,700  | 12,486  | 12,797  | 12,869               | 12,869          | 12,869             | 13,191  | 13,191                 | 13,191                 |
| <b>Refuse:</b>   |     |         |         |         |                      |                 |                    |   |                        |                        |
| Removed at least once a week   |     | 12,152  | 12,464  |         | 12,784               | 12,784          | 12,784             | 13,040  | 13,040                 | 13,040                 |
| <b>Minimum Service Level and Above sub-total</b>                           |     | 12,152  | 12,464  | -       | 12,784               | 12,784          | 12,784             | 13,040  | 13,040                 | 13,040                 |
| Removed less frequently than once a week                                   |     |         |         |         |                      |                 |                    |   |                        |                        |
| Using communal refuse dump   |     |         |         |         |                      |                 |                    |   |                        |                        |
| Using own refuse dump  |     |         |         |         |                      |                 |                    |   |                        |                        |
| Other rubbish disposal   |     |         |         |         |                      |                 |                    |   |                        |                        |
| No rubbish disposal  |     |         |         |         |                      |                 |                    |   |                        |                        |
| <b>Below Minimum Service Level sub-total</b>                               |     | -       | -       | -       | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total number of households</b>  | 5   | 12,152  | 12,464  | -       | 12,784               | 12,784          | 12,784             | 13,040  | 13,040                 | 13,040                 |
| <b>Households receiving Free Basic Service</b>                             | 7   |         |         |         |                      |                 |                    |   |                        |                        |
| Water (6 kilolitres per household per month)                               |     | 2,163   | 3,299   | 4,375   | 4,725                | 4,725           | 4,725              | 5,000   | 5,100                  | 5,100                  |
| Sanitation (free minimum level service)                                    |     | 2,163   | 3,298   | 4,204   | 4,378                | 4,378           | 4,378              | 5,000   | 5,100                  | 5,100                  |
| Electricity/other energy (50kwh per household per month)                   |     | 2,163   | 3,298   | 4,375   | 4,725                | 4,725           | 4,725              | 5,000   | 5,100                  | 5,100                  |
| Refuse (removed at least once a week)                                      |     | 2,163   | 3,298   | 3,216   | 4,400                | 4,480           | 4,480              | 5,000   | 5,100                  | 5,100                  |
| <b>Cost of Free Basic Services provided (R'000)</b>                        | 8   |         |         |         |                      |                 |                    |   |                        |                        |
| Water (6 kilolitres per household per month)                               |     | 290     | 275     | 284     | 319                  | 319             | 319                | 357   | 382                    | 415                    |
| Sanitation (free sanitation service)                                       |     | 147     | 263     | 271     | 306                  | 306             | 306                | 402   | 422                    | 456                    |
| Electricity/other energy (50kwh per household per month)                   |     | 132     | 132     | 143     | 171                  | 171             | 171                | 200   | 179                    | 197                    |
| Refuse (removed once a week)   |     | 125     | 212     | 229     | 247                  | 247             | 247                | 332   | 359                    | 364                    |
| <b>Total cost of FBS provided (minimum social package)</b>                 |     | 694     | 881     | 926     | 1,043                | 1,043           | 1,043              | 1,292   | 1,342                  | 1,432                  |
| <b>Highest level of free service provided</b>                              |     |         |         |         |                      |                 |                    |   |                        |                        |
| Property rates (R value threshold)   |     | 50,000  | 50,000  | 50,000  | 50,000               | 50,000          | 50,000             | 50,000  | 50,000                 | 50,000                 |
| Water (kilolitres per household per month)                                 |     | 6       | 6       | 6       | 6                    | 6               | 6                  | 6   | 6                      | 6                      |
| Sanitation (kilolitres per household per month)                            |     |         |         |         |                      |                 |                    |   |                        |                        |
| Sanitation (Rand per household per month)                                  |     |         |         |         |                      |                 |                    |   |                        |                        |
| Electricity (kwh per household per month)                                  |     | 50      | 50      | 50      | 50                   | 50              | 50                 | 50  | 50                     | 50                     |
| Refuse (average litres per week)   |     |         |         |         |                      |                 |                    |   |                        |                        |
| <b>Revenue cost of free services provided (R'000)</b>                      | 9   |         |         |         |                      |                 |                    |   |                        |                        |
| Property rates (R15 000 threshold rebate)                                  |     | 2,457   | 2,771   | 3,030   | 3,283                | 3,283           | 3,283              | 3,578   | 4,008                  | 4,408                  |
| Property rates (other exemptions, reductions and rebates)                  |     | 665     | 919     | 992     | 1,084                | 1,084           | 1,084              | 1,306   | 1,376                  | 1,476                  |
| Water  |     | 3,476   | 3,297   | 3,407   | 3,826                | 3,826           | 3,826              | 4,289   | 4,579                  | 4,979                  |
| Sanitation   |     | 1,760   | 3,152   | 3,250   | 3,676                | 3,676           | 3,676              | 4,826   | 5,067                  | 5,473                  |
| Electricity/other energy   |     | 1,588   | 1,583   | 1,710   | 2,055                | 2,055           | 2,055              | 2,406   | 2,149                  | 2,364                  |
| Refuse   |     | 1,504   | 2,539   | 2,742   | 2,962                | 2,962           | 2,962              | 3,981   | 4,306                  | 4,369                  |
| Municipal Housing - rental rebates   |     |         |         |         |                      |                 |                    |   |                        |                        |
| Housing - top structure subsidies  |     |         |         |         |                      |                 |                    |   |                        |                        |
| Other  | 6   | 307     | 307     | 307     | 132                  | 132             | 132                | 309   | 325                    | 351                    |
| <b>Total revenue cost of free services provided (total social package)</b> |     | 11,757  | 14,568  | 15,438  | 17,018               | 17,018          | 17,018             | 20,695  | 21,810                 | 23,420                 |

### **Explanatory notes to Table A10 - Basic Service Delivery Measurement**

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
2. Hessequa continues to make progress wherever backlogs exist.
3. The budget provides for 5 000 households to be registered as indigent in 2012/13 in accordance with the Hessequa Indigent Policy and therefore entitled to receiving Free Basic Services. The number is not set to increase much in the outer years.
4. It is anticipated that free basic services and rebates on rates will cost the municipality R20,695 million in 2012/13, increasing to R21,810 million in 2013/14 and increasing to R23,420 million in 2014/15. This is covered by the municipality's equitable share allocation from national government.